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DIGEST
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FOR INCOME AND EXCESS PROFITS TAXES
FOR 1921, 1922 AND SUBSEQUENT YEARS
WITH TABLES FOR CALCULATION OF TAX
AND FOR COMPARISON OF TAXES

Act Passed November 23, 1921.
Effective for Income Tax January 1, 1921.

THE NATIONAL CITY COMPANY

Main Office: National City Bank Building, New York
Offices in more than 50 leading cities throughout the World

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MAR 25 1922

FOREWORD

THIS pamphlet is confined to a consideration of Federal taxation of income, as such taxation is provided for by the Revenue Act of 1921.

The subject is considered under three general heads:

- (a) Definition of terms used in the Act.
- (b) Notation of the principal modifications of the Revenue Act of 1918.
- (c) A resume of the Income Tax Law, with comment, illustrations and tables of computation of tax applicable to individual, estate or trust and corporation income, and tables of comparison and effect of tax.

The object sought is to assist taxpayers in reading the Law intelligently and applying it to the facts of their particular cases.

The analysis and suggestions made are of course subject to such modification as departmental regulations—when issued—may require.

The Law is always the source of authority. It is printed in a separate pamphlet.

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Corporations are not permitted the benefits of the provisions for "capital gain" inasmuch as the tax rate on corporate income is the same as the rate provided for "capital gain," at the election of individuals, partnerships and estates or trusts, to wit, 12½% of the "capital net gain."

For the purpose of ascertaining "*capital net gain*," the general rules for ascertaining gain or loss will apply. No asset however may be included for the purpose of this special tax which does not fall within the definition of "capital assets" as defined above. Bearing in mind that every asset considered in this connection must have been "acquired and held by the taxpayer for profit or investment for more than two years," and must not include any of the items prohibited. The factors to be considered and shown in schedule are:

a	b	c	d	e	f	g	h	i	j
Cost of prop-erty.	Date ac-quired and since which continuously held.	Selling price.	Cost when acquired.	Value March 1, 1913	Cost of addi-tions, if any.	Depre-ciation.	Cost if (f) and or (g) are to be considered.	Gain	Loss

Capital net gain = (i) — (j).

(Regard should be had to any change of "basis" under Section 201 of the law, due to distributions with respect to stock of corporations.)

When a taxpayer, who may have the benefit of these provisions of the law, elects to take advantage of it, tax will be computed on his net income other than his "capital net gain" at the normal and surtax rates applicable thereto without reference to the capital gain provisions of the law. The amount of tax so computed plus 12½% of the "capital net gain," shall be the amount of tax to be paid; Provided, that when an election is made to take advantage of the "capital gain" provisions of the law, the "total tax shall in no case be less than 12½% of the total net income." It may be more.

In the case of a partnership, or a trust or estate, the segregation between capital-gain, and other income, will be made by the firm or individual, and members of the partnership or beneficiaries of the trust will use the information furnished them in making their individual returns of income according to the requirements of Section 218 or 219 of the Law.

Collector

The term "collector" means the Collector of Internal Revenue.

Commissioner

The term "Commissioner" means the Commissioner of Internal Revenue.

Corporation

The term "corporation" includes associations, joint-stock companies, and insurance companies.

Dividends

That the term "dividend" when used in this title (except in paragraph 10) of subdivision (a) of section 234 and paragraph (4) of subdivision (a) of section 245 means any distribution made by a corporation to its shareholders or members, whether in cash or in other property, out of its earnings or profits accumulated since February 28, 1913, except a distribution made by a personal service corporation out of earnings or profits accumulated since December 31, 1917, and prior to January 1, 1922.

Dividend: (1)

Is a distribution by a corporation to its shareholders out of its earnings or profits? A dividend is made by resolution adopted by the Board of Directors of the dividend making corporation. Payment of the dividend is with cash, or with property other than cash, in which the surplus has been invested. Payments of dividends are charged against and reduce the amount of surplus owned and retained by the dividend making corporation. The portion of a dividend taxable is the amount thereof which was paid from earnings of the corporation accumulated subsequent to February 28, 1913 (the beginning of the taxation of income under the Sixteenth Amendment to the Federal Constitution.)

The Income Tax Law provides that so long as a corporation has on hand (not distributed) any earnings accumulated after February 28, 1913, no dividend paid by the corporation can be exempt from being included in a return of income. When all earnings accumulated after February 28, 1913 have been distributed, then any surplus on hand which was accumulated prior thereto may be distributed free of tax.

The Act of 1921 further provides that when there remains no surplus accumulated during the taxable period, but that there is surplus applicable to dividends and which was accumulated

prior to the taxable period, and where such free surplus was the result of earnings of the corporation or increase in value of property accrued prior to March 1, 1913; if a dividend is declared and paid out of such free surplus, it will have no effect in determining the amount of taxable gain upon a subsequent sale of such stock, but if it should ever become necessary to compute the amount of deductible loss on a sale of such stock, then the cost of the stock must be reduced by the aggregate amount of dividends received free of tax.

Illustration:

Let us suppose a corporation is formed with 10 shares of stock which are sold for \$1,000 and with the money one bond is purchased for \$995, and that on March 1, 1913, the bond was sold for \$1,005; and thereafter the corporation declared and paid a dividend of \$10, this being the entire amount of its surplus (the effect of tax as a charge against surplus is purposely omitted in this illustration)—

The first question presented is, how much of this \$10 actual profit is subject to tax to the corporation? The answer is shown as follows:

Cost	Value March 1, 1913	Sale Price	Gain
\$995	\$1,000	\$1,005	\$5

Then obviously, \$5 of the dividend is from tax-free surplus. If upon a sale of the stock after dividend, the question is one of computation of profit on the sale of the stock, the tax-free dividend will have no effect; as,

Cost of Stock	Amount of Tax-free Dividend Paid	Basis for Determining Gain	Value March 1, 1913	Sale Price	Taxable Gain
\$1,000	\$5	\$995	\$1,000	\$1,005	\$5

If the question is the computation of amount of deductible loss, the cost of the stock sold must be reduced by the amount of tax-free dividend received on it; as,

Cost of Stock	Amount of Tax-Free Dividend	Basis for Determining Loss	Value March 1, 1913	Sale Price	Loss
\$1,000	\$5	\$995	\$1,000	\$990	\$5

But for the change in the Law as made by the Act of 1921, the deductible loss would have been \$10.

The statute provides, in addition to the foregoing, that any distribution (whether in cash or other property) made by a corporation to its shareholders or members otherwise than out of

- (1) Taxable surplus (accumulations after March 1, 1913), or
- (2) Nontaxable surplus (accumulations prior to March 1, 1913, or appreciation of property accrued prior to such date); then in that event, such distribution "shall be applied against and reduce the basis provided in Section 202 for the purpose of ascertaining the gain derived from or loss sustained from sale or other disposition of stock or shares by the distributee." This is equivalent to saying (and nothing more) that when all surplus of every description has been distributed, any further distributions are from capital, and to the extent thereof shall reduce what would otherwise have been the basis for determining gain or loss upon a "sale or other disposition of the stock or shares by the distributee."

Dividend:

Cash Dividends—Those paid with cash or its equivalent, or with property other than cash, are subject to the surtax to the owners thereof who are individuals and whether received directly by such individuals or through the intervention of partnerships or estates or trusts.

When the owner and recipient of such dividend is a corporation, the dividend—as part of its gross income—must be reported in a return of income, but is to be deducted in the computation of net income to be subjected to tax.

Dividends are wholly exempt from the normal tax to individuals. Dividends become part of the gross income of the recipients thereof when the cash or other property with which they are, or are to be paid, "is unqualifiedly made subject to their demands."

The provision in Section 201 (f) of the Act of 1921, that

dividends paid within the first 60 days of the taxable year "shall be deemed to have been made from earnings or profits accumulated during previous taxable years," has no reference to taxation of individual incomes, nor to any case where the individual normal and surtax applies. The provision has to do solely and only with the computation of invested capital of corporations whose income is subject to excess profits tax.

Stock Dividend:

Is a term which is applied to a situation where the directors of a corporation declare a dividend, on the basis of the issued and outstanding shares of the corporation, and which dividend is to be charged against and reduce the amount of surplus of the corporation carried as such at the time of declaring the dividend—but, instead of paying the dividend in cash, it is paid with shares of the dividend-paying corporation which were authorized at the time of the dividend declaration but which shares had never been issued.

The journal entry in such a case transfers the amount of dividend from the surplus account to the capital account of the corporation. The Supreme Court of the United States has held that this transaction does not represent any gain to the shareholder; that what he had before the dividend was a share of stock with surplus behind it (in the ownership of the dividend-paying corporation) in the amount of such surplus transferred by this operation; that what the shareholder has after such operation is an increased number of shares, but with no additional corporate assets behind them than was true before the dividend and for this reason a stock dividend, as such, is not subject to income tax.

For example:

A corporation has issued and outstanding shares of
the par value of\$100,000
and a surplus of 10,000

The total capital accounted for as above...	\$110,000
This corporation makes a 10% stock dividend (declares a 10% dividend and pays it with 100 shares of its before unissued shares), so that after the dividend the corporation has outstanding 1100 shares representing the same	
	\$110,000

In this case, the 100 shares of new stock spread the investment in the old stock over the 1100 shares, but there is no taxable income to the shareholder. The cost of each share of stock is then the quotient arising from dividing the investment in the old stock by the total number of shares, old and new. This new cost per share will be the basis for determining gain or loss upon a sale of the stock.

The Supreme Court of the United States has recently held that if a corporation (A) should sell to corporation (B) the assets representing the \$10,000 of surplus of (A), in consideration of 100 shares of (B), that while there might be no taxable profit to (A) arising from the transaction, yet if the 100 shares of (B) stock should be delivered to the shareholders of corporation (A), so that they held 1100 shares representing the same assets as in the first example above, the 100 shares of (B) stock would represent taxable income to the shareholders of corporation (A), and as a "profit" would be subject to both the normal and surtax to individuals; whereas if corporation (A) owned the shares of (B), or had it taken shares of (B) in payment for the assets of (A), and then (A) had declared a dividend of 10% on the outstanding shares of (A) and had paid this dividend with the shares of (B), such dividend would have been taxable but subject to only the surtax to shareholders of (A).

Domestic

The term "domestic" when applied to a corporation or partnership means created or organized in the United States.

Fiduciary

The term "fiduciary" means a guardian, trustee, executor, administrator, receiver, conservator, or any person acting in any fiduciary capacity for any person, trust or estate.

Fiscal Years 1920-1921 and 1921-1922

A fiscal year is a period of twelve months ending with the last day of some month other than December.

Individuals and corporations having a fiscal year beginning in 1920 and ending in 1921, or beginning in 1921 and ending in 1922 will compute their net taxable income for the entire fiscal year—

- (a) The tax on the entire net income will be computed at the rates for the calendar year in which the fiscal year begins;
- (b) The tax on the entire net income will be computed at the rates for the calendar year in which the fiscal year ends;
- (c) The tax to be paid, will be the sum of:
 - (1) Such a portion of (a) as the part of the fiscal year falling within the calendar year in which the fiscal year begins, or as such fraction of the fiscal year, is of that calendar year, and
 - (2) Such a portion of (b) as the part of the fiscal year falling within the calendar year in which the fiscal year ends, or as such fraction of the fiscal year, is of that calendar year.

In the case of partnerships, however, the rule is different. Partnerships compute their net income without regard to its taxation. The several interests of the partners are determined. The members of the partnership then separate their several shares of partnership profits in the proportions—

- (a) which the portion of the taxable year falling within the calendar year in which the fiscal year begins, or as such fraction of the fiscal year, is of that calendar year, and
- (b) which the portion of the fiscal year falling within the calendar year in which the fiscal year ends, or as such fraction of the fiscal year, is of that calendar year.
 - (1) The rates for the calendar year in which (a) falls will be applied to the amount of (a)
 - (2) The rates for the calendar in which (b) falls will be applied to the amount of (b)

And the sum of (1) and (2) will be the amount of tax on partnership income payable by the person making the return therefor.

As a rule, individuals make returns of income on the basis of the calendar year. Partnership profits are included in individual returns for the calendar year in which the fiscal year of the partnership ends—(where the partnership year is also the calendar year, no question arises)—so that the portion of partnership profits represented by (b) (in the second paragraph above) would take the same rates as the other income of the taxpayer for the calendar year in which (b) falls.

The change in rate is on the basis of the calendar year. Where change in the law makes tax computed for part of a fiscal year incorrect, any amount paid before or after passage of the Act making the change will be adjusted in accordance with the application of the new law by way of credit or refund, as the case may be, so that the tax paid will conform to legal prescription as between the old and the new law.

Foreign

The term "foreign" when applied to a corporation or partnership, means created or organized outside the United States.

Gain or Loss—Basis for Determining:

Three cases are provided for by the Law:

- (a) Where property was acquired after February 28, 1913;
- (b) Where property was acquired before March 1, 1913;
- (c) Upon an exchange of property.

The basis for determining gain or loss in the first case is the cost of the property. There are three exceptions to the general rule:

- (1) If the determination is in connection with property which should be included in the inventory, the last inventory value is the basis for determining gain or loss.
- (2) In case the property was acquired by gift after December 31, 1920, the basis shall be what should have been the basis in the hands of the donor, if such donor did not acquire the property by gift, or in the hands of the last preceding owner by whom it was not acquired by gift. If the gift was on or before December 31, 1920, the basis, is the fair market price or value of the property at the time it was acquired.
- (3) In the case of property acquired by bequest, devise, or inheritance, the basis is the fair market price or value of the property at the time of acquisition.

The basis for determining the gain or loss in the second case (where property was acquired prior to March 1, 1913) is cost, but the method of allocating this *gain* or *loss* for the purpose of income tax is determined in the following manner:

(The difference between sales price and the following bases goes in the return)

- (a) In the case of gain, the higher of the two values, "cost or value March 1, 1913."
- (b) In the case of loss, the lowest of the two values "cost or value March 1, 1913."
- (c) Where sales price falls between these two values (cost, or value March 1, 1913) there is neither gain nor loss to be included in a return of income.

EXAMPLE

1 share of stock purchased for \$100 prior to March 1, 1913, and sold after that date:

	Cost	Value March 1, 1913	Sale Price	Gain	Loss
(a)	\$100	\$101	\$105	\$4	....
(b)	100	95	90	....	\$5
(c)	100	95	98	None	None
(d)	100	98	101	\$1	....

In the third case (c) (exchange of property)—

The basis for determining gain or loss is, "the readily realizable market value" of the properties exchanged. The excess of this value on one side over that on the other side will constitute the amount of gain and the reverse will constitute the amount of loss, resulting from the transaction; Provided, that neither a gain nor loss is to be recognized—

- (1) When the property exchanged is held for investment, or for productive use in trade or business (not including stock in trade or other property primarily held for sale). This exception is confined to cases where the exchange on both sides is of a like kind or is devoted to a like use.
- (2) When stock or securities are exchanged for stock or other securities as a result of a reorganization.

- (3) When a person who owns property, real, personal or mixed, causes a corporation to be formed to which he conveys this property and immediately after such conveyance he is in control of the corporation, or where a corporation already formed is availed of and immediately after the conveyance such person is in control of the corporation. Control means 80% of all classes of stock issued and outstanding.

The basis of "cost" or "market value March 1, 1913" may continue in the case of "exchanged" property, where the exchange is treated as merely taking the place of property exchanged, except that if on one or both sides, there is money or other property which has a readily realizable market value, this money or value shall be applied and reduce the "basis" for determining gain or loss of him who receives the money or property of readily realizable market value and if the result of the application shall exceed the "basis" used in comparison, the excess shall be taxable to him.

Where property is involuntarily or compulsorily converted into cash or its equivalent, the proceeds of such conversion may be used in replacing the property which was converted and the replaced property will be "held to take the place" of the property it replaces. Any surplus remaining after such replacement would be taxable.

Property acquired as a result of a wash sale so that no loss would be allowed as a deduction in a return of income, will be held to have behind it the same capital investment as was the case with the property which was sold and repurchased.

Government Contract

The term "government contract" means (a) a contract made with the United States, or with any department, bureau, officer, commission, board, or agency, under the United States and acting in its behalf, or with any agency controlled by any of the above if the contract is for the benefit of the United States, or (b) a subcontract made with a contractor performing such a contract if the products or services to be furnished under the subcontract are for the benefit of the United States. The term

"government contract or contracts made between April 6, 1917, and November 11, 1918, both dates inclusive" when applied to a contract of the kind referred to in clause (a) of this subdivision, includes all such contracts which, although entered into during such period, were originally not enforceable, but which have been or may become enforceable by reason of subsequent validation in pursuance of law.

Instalment

Where instalment payments are made, in a transaction upon the whole of which there is a profit, each instalment has in it the elements of capital and profit—the sum of the instalment gains in any year will be accounted for in the year in which the payments made are received.

Inventories

Are taken at either—

(a) Cost, or at

(b) Cost or market value, whichever is the lower.

Inventories taken at cost will show the sum of cost prices in the inventory.

When inventories are taken on the alternative basis, only the lowest of the two values, "cost" or "market," is carried into the inventory; as,

a	b	UNIT		e	f	g
		c	d			
Article	Quantity	Cost	Market at Inventory	Total Cost	Total Market	Inventory
Shoes	10 dozen	\$60.00	\$48.00	\$600	\$480	\$480
Hose	20 dozen	2.40	2.25	48	45	45
Hats	10 dozen	30.00	35.00	300	350	300
				\$948	\$875	\$825

If inventory is taken at "cost," the result as shown in column (e) would be used and the inventory schedule would not have columns (f) and (g)

If the inventory is taken on the alternative basis, inventory should be in above form and the value shown in column (g) would be the value of the inventory carried into the balance sheet.

The basis for determining gain or loss of property carried by inventory, is the last inventory value of such property.

Military or Naval Forces of the United States

The term "military or naval forces of the United States" includes the Marine Corps, the Coast Guard, the Army Nurse Corps, Female, and the Navy Nurse Corps, Female, but this shall not be deemed to exclude other units otherwise included within such terms.

Net Loss

The beginning of a period in which a net loss may be claimed is January 1, 1921. It is confined to losses sustained in or resulting from the operation of a trade or business regularly carried on by the taxpayer. In such a case, losses sustained from the sale of capital assets, as real estate, machinery, etc., will be included.

Individuals not engaged in trade or business cannot have the benefit of a net loss.

Individuals engaged in a trade or business may have a net loss in the business, and if they have other taxable income, this net loss may be set-off against such other taxable income. The benefit of this Section is also allowed to members of a partnership and beneficiaries of a trust or estate and to insurance companies.

Where a taxpayer sustaining a net loss has a fiscal year beginning in 1920, the amount of the net loss which can be availed of is that portion of such loss which the portion of the fiscal year falling in 1921 is of the entire fiscal year.

Net loss is computed as follows:

(1) Gross income subject to inclusion in a return of income, say.....	\$100,000
<i>Add—</i>	
(2) Interest on Liberty Bonds (exempt), say, ...	\$4,250
Interest on municipal bonds 10,000	
Any other exempt income.....	
	<u>\$14,250</u>
Interest paid on loans to buy Liberty Bonds (not originally purchased) \$100,000 at 5%, 3 months	\$1,250
Interest on loans to buy municipals, \$50,000 at 6%, 2 months	500
	<u>1,750</u>
Deduct	
Add excess of cash received over interest paid	\$12,500
(3) Amount of loss outside of business, say, ...	\$5,000
Amount of gains outside of business	1,500
Add excess of losses	3,500
(4) Dividends on stock of domestic corporations, when received by corporations	1,000
(5) Portion of depletion deduction based on discovery in lieu of cost, say, ...	1,500
Total	\$118,500
The sum of deductions allowed under Sections 214 or 234 of the Law (itemized)	120,000
Net loss	\$ 1,500
Item (3) above would appear to be applicable only in the case of individuals.	
Item (4) above would appear to be applicable only in the case of corporations.	

A net loss (within the provisions of the statute and regulations) is deductible from the *net income* of a taxpayer for the succeeding taxable year; and if in excess of the *net income* of the succeeding taxable year, the amount of such excess shall be allowed as a deduction from the *gross* income in computing the *net* income for the next succeeding taxable year. The net loss not recouped from the income of the taxpayer for the two years next succeeding the taxable year in which the net loss was sustained, remains a loss to the taxpayer.

A taxpayer sustaining a net loss should prepare a schedule showing the computation of the net loss and the amount thereof. This schedule should be attached to the return of income for the succeeding taxable year and in the event the amount of any loss shown by such schedule exceeds the net income of such succeeding taxable year, there should be added to the schedule the amount of the net loss used as a set-off against the net income of such succeeding taxable year, and a copy of this schedule should be attached to the return of income of the taxpayer for the next succeeding taxable year.

Ordinary Net Income

The term "ordinary net income" means the net income computed in accordance with the provisions of this title, after excluding all items of capital gain, capital loss, and capital deductions.

Paid

The term "paid" for the purposes of the deductions and credits under this title, means "paid or accrued" or "paid or incurred" and the terms "paid or incurred" and "paid or accrued" shall be construed according to the method of accounting upon the basis of which the net income is computed under section 212.

Personal Service Corporation

The term "personal service corporation" means a corporation whose income is to be ascribed primarily to the activities of the principal owners or stockholders who are themselves regularly engaged in the active conduct of the affairs of the corporation and in which capital (whether invested or borrowed) is not a material income-producing factor; but does not include any foreign corporation, nor any corporation 50 per centum or more of whose gross income consists either (1) of gains,

profits, or income derived from trading as a principal, or (2) of gains, profits, commissions, or other income, derived from a government contract or contracts made between April 6, 1917, and November 11, 1918, both dates inclusive.

Persons

The term "person" includes partnerships and corporations, as well as individuals.

Secretary

The term "secretary" means the Secretary of the Treasury.

Taxable Year

The term "taxable year" means the calendar year, or the fiscal year ending during such calendar year, upon the basis of which the net income is computed under section 212 or section 232. The term "fiscal year" means an accounting period of twelve months ending on the last day of any month other than December. The first taxable year, to be called the taxable year 1921, shall be the calendar year 1921, or any fiscal year ending during the calendar year 1921.

Taxpayer

The term "taxpayer" includes any person, trust or estate subject to a tax imposed by this Act.

United States

The term "United States" when used in a geographical sense, includes only the States, the Territories of Alaska and Hawaii, and the District of Columbia.

Withholding Agent

The term "withholding agent" means any person required to deduct and withhold any tax under the provisions of section 221 or section 237.

THE FEDERAL REVENUE ACT OF 1921**Modification of the Act of 1918 as to Individuals**

1 An essential change is made in the rule for determining gain or loss in case of the sale of property acquired by gift between living persons, but this change does not apply to testamentary gifts.

2 New rules are provided for determining gain or loss in connection with the exchange of property.

3 The net loss provision of the Act of 1918 is revived in modified form.

4 A new provision provides for taxing, separately from ordinary income, capital gains, realized upon a sale or other disposition of property acquired and held for profit or investment for more than two years next preceding the sale, and makes provision for the ascertainment of such gains.

5 There is a modification of the definition of gross income as contained in the Act of 1918 and as that Act was modified by regulations.

6 A new provision is added preventing deduction for amortization of "present value" of expected future income from life or other terminable interests received by gift, bequest or inheritance.

7 A modification is made of exemptions to individuals, including non-resident aliens.

8 Section 220 of the Act of 1918, which provision was substantially carried in all Income Tax Acts, provided for the taxation of undistributed surplus and income of corporations which was not required or necessary for the purposes of the corporation. This provision is modified by the Act of 1921, in view of the stock dividend decision of the Supreme Court of the United States, so that in lieu of taxing, upon Certificate of the Secretary of the Treasury, such undistributed surplus to stockholders as individual income at individual rates, there is to be instead a flat tax of 25% of the net income for each year in addition to the corporation income tax upon the net income of the corporation for each year, or the stockholders may agree to be taxed on such net income in the same manner as is provided for partnerships.

9 There is a modification of the rule determining the amount of credit against United States tax, for tax paid to foreign countries or to a Possession of the United States.

10 There is a modification of the basis for requiring returns of income from individuals.

Corporations

11 The definition of gross income is slightly modified to provide for relief in cases where the majority of the net income of a domestic corporation is derived from sources in a Possession of the United States.

12 A change is made in deductions allowed to corporations, in that, tax paid by banks or other corporations for their stockholders, as a state method of collection of tax from such stockholders, is permitted to be deducted by the corporation, unless the bank or other corporation making such payment of tax, is reimbursed by the stockholder for the tax paid.

13 The method of determining the amount of foreign tax paid which may be deducted as a credit against United States tax is similar to that provided in the case of individuals.

14 The provision for consolidated returns gives to corporations affiliated within the meaning of that provision an option of electing on or after January 1, 1922, whether they will make a consolidated return or separate returns, the election once exercised to be binding for future returns.

15 A new plan is provided for the taxation of income of insurance companies.

Administrative Provisions

16 Some amendment has been made in the administrative provisions of the law seeking to give relief in cases of additional assessment, in allowing interest on refunds in certain cases, and for other purposes.

Excess Profits Tax

17 The applicable provisions of the Revenue Act of 1918 for war-profits tax and excess-profits tax are continued in the Act of 1921. That is to say, the provisions of the Reve-

nue Act of 1921 for war-profits and excess-profits tax are those of the Revenue Act of 1918, with merely the elimination of rates "applicable to prior years and other provisions which have already expired."

18 The excess-profits tax is repealed as of January 1, 1922.

19 Corporations required to pay an excess-profits tax for 1921 will, therefore, have recourse to those provisions of Regulations 45 which would have applied to the Act of 1918.

DIGEST OF INCOME TAX

Income Tax

20 The Federal Income Tax is an annual impost or levy by the United States Government of certain specified rates of tax on a sum designated as "net income."

Sources of the Tax

21 Authority for this levy for 1921 and subsequent years, until repealed, is the Revenue Act of 1921 adopted 3:55 p. m., November 23, 1921, and made effective for taxation of income as at January 1, 1921.

To Whom the Tax Applies

22 This tax applies to the income of individuals, estates or trusts and to all corporations not exempt under the law.

23 The individuals whose income is thus taxed, are citizens of the United States, wherever residing, aliens resident in the United States and non-resident aliens receiving income from certain sources in the United States.

The Kinds of Tax

24 Normal Tax and surtax upon the income of individuals, and estates or trusts.

25 Income tax (and excess-profits tax and war-profits tax for 1921) upon the income of corporations, domestic and foreign.

Section 210—

"there shall be levied, collected, and paid for each taxable year upon the net income of every individual a normal tax of 8 per centum of the amount of the net

income in excess of the credits provided in section 216: Provided, That in the case of a citizen or resident of the United States the rate upon the first \$4,000 of such excess amount shall be 4 per centum."

Section 211—

26 "in addition to the normal tax imposed by section 210 of this Act, there shall be levied, collected and paid for each taxable year upon the net income of every individual—

27 (1) *For the calendar year 1921*, a surtax equal to the sum of the following:

* * *"

Beginning at (1) per centum on the first \$1,000 above \$5,000, with rising gradations practically in steps of \$2,000 each, to 65 per centum of the amount by which the net income exceeds \$1,000,000. (See table II on pages 88-90.)

28 (2) *"For the calendar year 1922*, and each calendar year thereafter, a surtax equal to the sum of the following:"

Beginning at (1) per centum of the first \$4,000 above \$6,000 with rising gradations practically in steps of \$2,000 each, to 50 per centum of the amount by which the net income exceeds \$200,000. (See table III on pages 92-93.)

Partnerships and Personal Service Corporations

Section 218—

29 Individuals carrying on business in partnerships shall be liable for income tax only in their individual capacity.

30 The individual stockholders of personal service corporations shall be taxed in the same manner as the members of partnerships; Provided, that income accrued to or received by personal service corporations after December 31, 1921, shall be taxed as is the income of other corporations, consequently the shareholders of personal service corporations will not be taxed as are members of partnerships after December 31, 1921.

31 Where a personal service corporation has a fiscal year beginning in 1921 and ending in 1922, the net income of the

corporation shall be prorated between those years according to the percentage that the part of the fiscal year falling within a calendar year is of 12 months. The shareholders shall be taxed as though members of a partnership for all of the 1921 income of the corporation.

32 Because of the reasoning of the Supreme Court of the United States, in connection with its decision on the "stock dividend" case, doubt arose as to the correctness of this provision of law. With this in mind the Congress provided in section 1332 Revenue Act of 1921 for such a contingency. By this provision, if by a final judicial adjudication the method of taxing the income of personal service corporations from 1918 to 1921 inclusive is declared invalid, then such income shall be taxed as the income of other corporations is taxed, and the shareholders of such personal service corporations may make claim for refund of the tax they have paid; Provided, That a personal service corporation of which no shareholder or member has filed such a claim within six months next after such final decision shall not be subject to taxation on its said income.

Estates and Trusts

Section 219—

33 "That the tax imposed upon the net income of individuals shall apply to the income of estates or trusts or any kind of property held in trust, including:

- 34 (1) Income received by estates of deceased persons during the period of administration or settlement of the estate;
- 35 (2) Income accumulated in trust for the benefit of an unborn or unascertained person or persons with contingent interests;
- 36 (3) Income held for future distribution under the terms of the will or trust; and
- 37 (4) Income which is to be distributed to the beneficiaries periodically, whether or not at regular intervals, and the income collected by a guardian of an infant to be held or distributed as the court may direct."

Corporation Income Tax**Section 230—**

38 There shall be levied, collected and paid for each taxable year upon the net income of every corporation (not exempt)—including insurance companies according to the provisions of sections 243 to 246—tax at the following rates:

39 (a) For the calendar year 1921, 10 per centum of the amount of the net income in excess of the credits provided in section 236; and

40 (b) For each calendar year thereafter 12½ per centum of such excess amount.

41 The income tax for 1921 is in addition to the excess profits tax. After December 31, 1921, only income tax applies to the income of corporations. (See table V on page 95.)

Corporations—Excess Profits and War Profits Tax**Section 301—**

42 In addition to the other taxes imposed by this Act, there shall be levied, collected and paid for the calendar year 1921 upon the net income of every corporation (except corporations having a net income for 1921 of more than \$10,000 from a Government contract or contracts made between July 6, 1917, and November 11, 1918, and corporations with incomes of \$3,000 and under, which latter are not liable to excess profits tax) a tax equal to the sum of the following:

43 First Bracket—

20 per centum of the amount of the net income in excess of the excess profits credit (determined under section 312) and not in excess of 20 per centum of the invested capital;

44 Second Bracket—

40 per centum of the amount of the net income in excess of 20 per centum of the invested capital.

45 Government contract income in 1921 is subject to an excess profits tax at 30% in the first bracket and 65% in the second bracket, or to a war excess profits tax of 80% of the

amount of the net income in excess of the war profits credit, whichever of the two war taxes is the higher. For war excess profits tax, it is necessary to refer to the Revenue Act of 1918 and Regulations thereunder.

46 Section 302 of the Act provides a maximum tax for corporations. This tax most often applies to corporations with capitals from \$25,000 to \$100,000 and net incomes ranging in excess of 28% to 19% of these capitals.

Difference in Rates of Tax

47 No change has been made in the rate of normal tax on the income of individuals. This remains at 8% flat, with a provision that in the case of citizens and resident aliens, the rates shall be reduced to 4 per centum on the first \$4,000 above specific exemptions and credits.

48 There was no change as between the surtax for 1918 and subsequent years under the Revenue Act of 1918. Under the Revenue Act of 1921, a slight change is made in the surtax; for 1921, the surtax rates are the same as under the Act of 1918, being graded up to \$1,000,000. For 1922 and thereafter, the surtax is slightly changed in gradations and rates and becomes a flat tax of 50% at \$200,000. The rate at \$200,000 under the Act of 1918, and for 1921 under the Act of 1921, was and is 56%.

What Is Taxed

49 The thing that is taxed is income. Not all income is of a taxable class. Income which is of a taxable class is to be reported gross. The statute specifies certain expenditures or disbursements which may be used as a set off against gross income. These set-offs are termed "deductions." The difference between total gross income of a taxable class and total allowable deductions, is termed "net income." The tax is applied to net income.

Definition of Income

50 Income is the flow of capital's service; what one's capital does for him; and is not necessarily synonymous with receipt. Receipt basis is the general rule for Income Tax purposes, however. Except where the books of account are con-

sistently kept in a manner so as to make a different showing and a showing which will adequately and correctly reflect income, receipt basis is to be used, particularly for the purpose of ascertaining basic value measure in determining gain or profit. For the purpose of ascertaining gain or profit, there must be a realization of value through some form of receipt or completed and closed transaction, in which gain or profit will be measured.

51 Basic value is a question of fact, and neither the Government nor the taxpayer is bound by book entries where the entries on the books do not correctly state the facts.

52 One's service may be his capital, but in such event there is no subtraction of *capital* from *receipt* for the purpose of ascertaining "gain or profit." In such case, the entire receipt has the characteristic of compensation or price of service, and is therefore to be included, gross, in the return of income.

53 Disservice is a negative service. A flow of disservice or negative income is called outgo. The difference between service and disservice is, therefore, to be designated net income, but net income for the purpose of the Income Tax is not necessarily the true net income either of an individual or an enterprise.

54 Gross income as defined by the Act of 1921 includes:

Section 213—

- (a) Gains, profits and income derived from salaries, wages or compensation for personal service,* of

*Note.—The Federal Constitution provides that the compensation paid to the President of the United States, the Judges of the Supreme Court of the United States, etc., shall not be increased or diminished during the term for which they were elected or appointed. The Supreme Court of the United States has held that an income tax law beginning during the pendency of such a term would serve to reduce the compensation fixed as at the beginning of the term, and was therefore unconstitutional. An income tax in effect at the beginning of such a term would apply to such compensation. With the exception of those officials of the United States specified in the Constitution as being exempt as hereinbefore stated, the income of all officers and employees of the United States is subject to income tax.

The Act of 1921 provides for the taxation of income of its officials and employees as follows:

"Gross income includes income derived from salaries, wages or compensation for personal service, of the President of the United States, the Judges of the Supreme and inferior courts of the United States, and all other officers and employees, whether elected or appointed, of the United States, Alaska, Hawaii, or any political subdivision thereof, or the District of Columbia, the compensation received as such."

- whatever kind and in whatever form paid,
- (b) From professions, vocations, trades, businesses, commerce, or
 - (c) Sales, or dealings in property, whether real or personal, growing out of the ownership or use of or interest in such property;
 - (d) Also from interest, rent, dividends, securities, or the transaction of any business carried on for gain or profit, or
 - (e) Gains, or profits, and income derived from any source whatever.

55 The amount of all such items [except as provided in subdivision (e) of Section 201] shall be included in the gross income for the taxable year in which received by the taxpayer, unless, under methods of accounting permitted under subdivision (b) of section 212, any such amounts are to be properly accounted for as of a different period.

56 Subdivision (e) of section 201 provides that dividends shall be included in returns of income of stockholders for the taxable period in which the "cash or other property is unqualifiedly made subject to their demands." It might be possible, therefore, that dividends would have been accounted for in some year other than that in which received.

Income Not Taxable

57 Gross income does not include the following items, which shall be exempt from taxation under this title:

- 58 (1) The proceeds of life insurance policies paid upon the death of the insured;
- 59 (2) The amount received by the insured as a return of premium or premiums paid by him under life insurance, endowment, or annuity contracts, either during the term or at the maturity of the term mentioned in the contract or upon surrender of the contract;
- 60 (3) The value of property acquired by gift, bequest, devise, or descent (but the income from such property shall be included in gross income);
- 61 (4) Interest upon—
 - (a) the obligations of a State, Territory, or any

- political subdivision thereof, or the District of Columbia; or
- (b) securities issued under the provisions of the Federal Farm Loan Act of July 17, 1916; or
 - (c) the obligations of the United States or its possessions; or
 - (d) bonds issued by the War Finance Corporation. In the case of obligations of the United States issued after September 1, 1917 (other than postal savings certificates of deposit), and in the case of bonds issued by the War Finance Corporation, the interest shall be exempt only if and to the extent provided in the respective Acts authorizing the issue thereof as amended and supplemented, and shall be excluded from gross income only if and to the extent it is wholly exempt to the taxpayer from income, war-profits and excess-profits taxes;
- 62 (5) The income of foreign governments received from investments in the United States in stocks, bonds, or other domestic securities, owned by such foreign governments, or from interest on deposits in banks in the United States of moneys belonging to such foreign governments, or from any other source within the United States;
- 63 (6) Amounts received, through accident or health insurance or under workmen's compensation acts, as compensation for personal injuries or sickness, plus the amount of any damages received whether by suit or agreement on account of such injuries or sickness;
- 64 (7) Income derived from any public utility or the exercise of any essential governmental function and accruing to any State, Territory, or the District of Columbia, or any political subdivision of a State or Territory, or income accruing to the Government of any possession of the United States, or any political subdivision thereof.

Whenever any State, Territory, or the District of Columbia, or any political subdivision of a State

or Territory, prior to September 8, 1916, entered in good faith into a contract with any person, the object and purpose of which is to acquire, construct, operate, or maintain a public utility, no tax shall be levied under the provisions of this title upon the income derived from the operation of such public utility, so far as the payment thereof will impose a loss or burden upon such State, Territory, District of Columbia, or political subdivision; but this provision is not intended and shall not be construed to confer upon such person any financial gain or exemption or to relieve such person from the payment of a tax as provided for in this title upon the part or portion of such income to which such person is entitled under such contract;

- 65 (8) The income of a non-resident alien or foreign corporation which consists exclusively of earnings derived from the operation of a ship or ships, documented under the laws of a foreign country which grants an equivalent exemption to citizens of the United States and to corporations organized in the United States;
- 66 (9) Amounts received as compensation, family allotments and allowances under the provisions of the War Risk Insurance and the Vocational Rehabilitation Acts, or as pensions from the United States for service of the beneficiary or another in the military or naval forces of the United States in time of war;
- 67 (10) So much of the amount received by an individual after December 31, 1921, and before January 1, 1927, as dividends or interest from domestic building and loan associations, operated exclusively for the purpose of making loans to members, as does not exceed \$300;
- 68 (11) The rental value of a dwelling house and appurtenances thereof furnished to a minister of the gospel as part of his compensation.
- 69 (12) The receipts of shipowners' mutual protection and indemnity associations, not organized for profit,

and no part of the net earnings of which inures to the benefit of any private stockholder or member, but such corporations shall be subject as other persons to the tax upon their net income from interest, dividends and rents.

- 70 (c) In the case of a non-resident alien individual, gross income means only the gross income from sources within the United States, determined under the provisions of Section 217.

Income of Corporations

Section 233—

- 71 (a) That in the case of a corporation subject to the tax imposed by section 230 the term "gross income" means the gross income as defined in sections 213 and 217, except that mutual marine insurance companies shall include in gross income the gross premiums collected and received by them less amounts paid for reinsurance.
- 72 (b) In the case of a foreign corporation, gross income means only gross income from sources within the United States, determined (except in the case of insurance companies subject to the tax imposed by section 243 or 246) in the manner provided in section 217.

DEDUCTIONS

Section 214—Individuals

73 The following deductions are permitted to individuals, when they actually have any of them, or some or all of them:

- 74 (a) "(1) All the ordinary and necessary expenses paid or incurred during the taxable year in carrying on any trade or business, including a reasonable allowance for salaries or other compensation for personal services actually rendered; traveling expenses (including the entire amount expended for meals and lodging) while away from home in the pursuit of a trade or business; and rentals or other payments required to be made as a condition

to the continued use or possession, for purposes of the trade or business, of property to which the taxpayer has not taken or is not taking title or in which he has no equity."

There is a deduction here not before given to persons traveling on business.

- 75 “(2) All interest paid or accrued within the taxable year on indebtedness, except on indebtedness incurred or continued to purchase or carry obligations or securities (other than obligations of the United States issued after September 24, 1917, and originally subscribed for by the taxpayer) the interest upon which is wholly exempt from taxation under this title.”

The amendment of previous law consists in limiting deductible interest paid on indebtedness to purchase Government Bonds to such as were originally subscribed for by the taxpayer.

- 76 “(3) Taxes paid or accrued within the taxable year, except—

77 (a) income, war-profits, and excess-profits taxes imposed by the authority of the United States,

78 (b) so much of the income, war-profits and excess-profits taxes, imposed by the authority of any foreign country or possession of the United States, as is allowed as a credit under section 222,

79 (c) taxes assessed against local benefits of a kind tending to increase the value of the property assessed, and

80 (d) taxes imposed upon the taxpayer upon his interest as shareholder or member of a corporation, which are paid by the corporation without reimbursement from the taxpayer. For the purpose of this paragraph, estate, inheritance, legacy and succession taxes accrue on the due date thereof except as otherwise provided by

the law of the jurisdiction imposing such taxes."

The change here is the taking away from individuals the deduction for tax paid on bank shares, etc., and giving this deduction to corporations paying the tax, unless the shareholder reimburses the corporation, in which event there would be no advantage to the shareholder, and in permitting a deduction for estate or inheritance taxes which have accrued or been paid.

- 81 "(4) Losses sustained during the taxable year and not compensated for by insurance or otherwise, if incurred in trade or business.

This refers to inventory or operating loss.

- 82 "(5) Losses sustained during the taxable year and not compensated for by insurance or otherwise, if incurred in any transaction entered into for profit, though not connected with the trade or business; but in the case of a non-resident alien individual only if and to the extent that the profit, if such transaction had resulted in a profit, would be taxable under this title. No deduction shall be allowed under this paragraph for any loss claimed to have been sustained in any sale or other disposition of shares of stock or securities made after the passage of this Act where it appears that within thirty days before or after the date of such sale or other disposition the taxpayer has acquired (otherwise than by bequest or inheritance) substantially identical property, and the property so acquired is held by the taxpayer for any period after such sale or other disposition. If such acquisition is to the extent of part only of substantially identical property, then only a proportionate part of the loss shall be disallowed."

The Act of 1921 was passed at 3:55 p. m., November 23, 1921. Sales of stock or securities completed prior to the passage of this Act are not affected by this paragraph. It has been held

that the Law does not take notice of a fraction of a day. It may be possible that the Commissioner of Internal Revenue will take the view that the Act having been passed on November 23 will require that all of that day be considered for the purposes of this provision.

The statute provides that, where within 30 days before or after a sale of stock or securities "substantially identical property" is acquired and held by the taxpayer for any period after such sale or other disposition, no loss determined upon such a sale shall be allowed as a deduction from gross income in return of income. As originally proposed, the inhibition was against the repurchase of "identical or substantially identical" property. The Act as passed omits the word "identical" except as adjectively qualified. It is to be presumed that a repurchase within 30 days after sale of the identical property sold would be covered by the language of the statute, "substantially identical."

"Identical"—Absolutely the same, as in essence or in all respects; the very same: opposed to different, and contrasted with similar; as, this is the identical volume from which he read; the identical spot.—Stand. Dic.

Clearly with this provision, the sale or acquisition, for example, of C., B. & Q. Bonds, Nos. 34, 36 First Mortgage, Series "A" 5% 20-year Bonds due May 1, 1941, would require acquisition (other than by bequest or inheritance) within 30 days prior to a sale by the purchaser thereof of bonds of the same debtor, and same issue of the same debtor, or a replacement by purchase within 30 days after sale of either the same certificates sold or other certificates of the same debtor and same issue.

A repurchase of the identical certificates would be "identical property." Purchase of other certificates of the same debtor and same issue of such

debtor would be "substantially identical property."

Bonds of some other debtor, or some other issue of the same debtor, would be similar, as pointed out in the definition of "identical." A purchase of "similar" property, however, does not come within the inhibition of the statute.

It might be possible where there was a holding of stock or securities which were sold, say, December 15th, that a purchase on November 25th preceding, of substantially identical property, could be sold prior to December 15th following and a gain or loss taken without affecting the gain or loss status of the sale on December 15th. Any of the purchase on November 25th, held by the taxpayer for any period after December 15th, would negative a loss deduction on a like amount of securities sold December 15th.

- 83 "(6) Losses sustained during the taxable year of property not connected with the trade or business (but in the case of a non-resident alien individual only property within the United States) if arising from fires, storms, shipwreck, or other casualty, or from theft, and if not compensated for by insurance or otherwise. Losses allowed under paragraphs (4), (5) and (6) of this subdivision shall be deducted as of the taxable year in which sustained unless, in order to clearly reflect the income, the loss should, in the opinion of the Commissioner, be accounted for as of a different period. In case of losses arising from destruction of or damage to property, where the property so destroyed or damaged was acquired before March 1, 1913, the deduction shall be computed upon the basis of its fair market price or value as of March 1, 1913."

This is a variation of the rule prescribed in section 202 for determining loss.

- 84 "(7) Debts ascertained to be worthless and charged off within the taxable year (or, in the discretion of the Commissioner, a reasonable addition to a reserve for bad debts); and when satisfied that a debt is recoverable only in part, the Commissioner

may allow such debt to be charged off in part.

In previous statutes, only debts actually determined to be wholly worthless and actually charged off could be taken. This is the first instance in our income tax laws where a reserve has been permitted as a deduction.

- 85 “(8) A reasonable allowance for the exhaustion, wear and tear of property used in the trade or business, including a reasonable allowance for obsolescence. In the case of such property acquired before March 1, 1913, this deduction shall be computed upon the basis of its fair market price or value as of March 1, 1913:

The last sentence here is a previous regulation now written into the law.

- 86 “(9) In the case of buildings, machinery, equipment, or other facilities, constructed, erected, installed or acquired, on or after April 6, 1917, for the production of articles contributing to the prosecution of the war against the German Government, and in the case of vessels constructed or acquired on or after such date for the transportation of articles or men contributing to the prosecution of such war, there shall be allowed, for any taxable year ending before March 3, 1924 (if claim therefor was made at the time of filing return for the taxable year 1918, 1919, 1920, or 1921) a reasonable deduction for the amortization of such part of the cost of such facilities or vessels as has been borne by the taxpayer, but not again including any amount otherwise allowed under this title or previous Acts of Congress as a deduction in computing net income. At any time before March 3, 1924, the Commissioner may, and at the request of the taxpayer shall, re-examine the return, and if he then finds as a result of an appraisal or from other evidence that the deduction originally allowed was incorrect, the income, war-profits, and excess-profits taxes for the year or years affected shall be redetermined; and the amount of tax due

upon such redetermination, if any, shall be paid upon notice and demand by the collector, or the amount of tax overpaid, if any, shall be credited or refunded to the taxpayer in accordance with the provisions of section 252."

This paragraph definitely fixes the time within which war amortization is to be completed. The Government has heretofore been refusing to act finally, except in the case of actual disposition of amortizable property, on the ground that normal conditions had not returned.

- 87 "(10) In the case of mines, oil and gas wells, other natural deposits, and timber, a reasonable allowance for depletion and for depreciation of improvements, according to the peculiar conditions in each case, based upon cost, including cost of development not otherwise deducted: *Provided*, That in the case of such properties acquired prior to March 1, 1913, the fair market value of the property (or the taxpayer's interest therein) on that date shall be taken in lieu of cost up to that date: *Provided further*, That in the case of mines, oil and gas wells, discovered by the taxpayer, on or after March 1, 1913, and not acquired as the result of purchase of a proven tract or lease, where the fair market value of the property is materially disproportionate to the cost, the depletion allowance shall be based upon the fair market value of the property at the date of the discovery, or within thirty days thereafter: *And provided further*, That such depletion allowance based on discovery value shall not exceed the net income, computed without allowance for depletion, from the property upon which the discovery is made, except where such net income so computed is less than the depletion allowance based on cost or fair market value as of March 1, 1913; such reasonable allowance in all the above cases to be made under rules and regulations to be prescribed by the Commissioner, with the approval of the Secretary. In the case of leases the deductions allowed by this

paragraph shall be equitably apportioned between the lessor and lessee."

88 "(11) Contributions or gifts made within the taxable year or to or for the use of:

- (a) The United States, any State, Territory, or any political subdivision thereof, or the District of Columbia, for exclusively public purposes;
- (b) Any corporation, or community chest, fund, or foundation, organized and operated exclusively for religious, charitable, scientific, literary, or educational purposes, including posts of the American Legion or the Women's Auxiliary units thereof, or for the prevention of cruelty to children or animals, no part of the net earnings of which inures to the benefit of any private stockholder or individual; or
- (c) The special fund for vocational rehabilitation authorized by section 7 of the Vocational Rehabilitation Act; to an amount which in all the above cases combined does not exceed 15 per centum of the taxpayer's net income as computed without the benefit of this paragraph. In case of a non-resident alien individual this deduction shall be allowed only as to contributions or gifts made to domestic corporations, or to community chests, funds, or foundations, created in the United States, or to such vocational rehabilitation fund. Such contributions or gifts shall be allowable as deductions only if verified under rules and regulations prescribed by the Commissioner, with the approval of the Secretary."

89 "(12) If property is compulsorily or involuntarily converted into cash or its equivalent as a result of—

- (a) Its destruction in whole or in part,

- (b) Theft or seizure, or
- (c) An exercise of the power of requisition or condemnation, or the threat or imminence thereof; and if the taxpayer proceeds forthwith in good faith, under regulations prescribed by the Commissioner with the approval of the Secretary, to expend the proceeds of such conversion in the acquisition of other property of a character similar or related in service or use to the property so converted, or in the acquisition of 80 per centum or more of the stock or shares of a corporation owning such other property, or in the establishment of a replacement fund, then there shall be allowed as a deduction such portion of the gain derived as the portion of the proceeds so expended bears to the entire proceeds. The provisions of this paragraph prescribing the condition under which a deduction may be taken in respect of the proceeds or gains derived from the compulsory or involuntary conversion of property into cash or its equivalent, shall apply so far as may be practicable to the exemption or exclusion of such proceeds or gains from gross income under prior income, war-profits and excess-profits tax acts."

This paragraph is new. It is referred to in paragraph (2) of subdivision (d) of section 202.

Example:

Where property converted, as provided in this paragraph, had a value on March 1, 1913, of, say.....\$100,000 or its cost subsequent to that date was

\$100,000

and its value at conversion was larger than this sum, say.....\$150,000

and the owner undertakes to replace the converted property from this value. Let us suppose it requires, under regulations prescribed by the Commissioner. \$145,000 to replace the property converted—we would then have a gain of.....\$ 5,000 .96-2/3% of the value would have been used in replacement and this proportion of the gain would be an allowable deduction under this paragraph:

$\$5000 \times .96\text{-}2/3\% = \dots\dots\dots \$4833.33$
Taxable for the year in which
determined 166.67

\$5000.00

- 90** “(b) In the case of a nonresident alien individual the deductions allowed in subdivision (a), except those allowed in paragraphs (5), (6), and (11), shall be allowed only if and to the extent that they are connected with income from sources within the United States; and the proper apportionment and allocation of the deductions with respect to sources of income within and without the United States shall be determined as provided in section 217 under rules and regulations prescribed by the Commissioner with the approval of the Secretary. In the case of a citizen entitled to the benefits of section 262 the deductions shall be the same and shall be determined in the same manner as in the case of a nonresident alien individual.

Partnerships and Personal Service Corporations (Section 218, Law).

- 91** Have the same deductions as individuals, except that they are not permitted to deduct contributions or gifts for charitable and other purposes as are individuals.

Estates and Trusts (Section 219, Law).

- 92** The net income of an estate or trust is computed as in the case of a single individual for such portion of the income as is taxed to the estate or trust, except in lieu of the

deduction for contributions or gifts for charitable purposes, etc., which, pursuant to the terms of the will or deed creating the trust, is during the taxable year paid or permanently set aside for the purposes and in the manner specified as controlling in the case of individuals.

Deductions Allowed Corporations (Section 234, Law).

Corporations are allowed the following deductions:

93 "(1) All the ordinary and necessary expenses paid or incurred during the taxable year in carrying on any trade or business, including a reasonable allowance for salaries or other compensation for personal services actually rendered, and including rentals or other payments required to be made as a condition to the continued use or possession of property to which the corporation has not taken or is not taking title, or in which it has no equity;"

94 "(2) All interest paid or accrued within the taxable year on its indebtedness, except on indebtedness incurred or continued to purchase or carry obligations or securities (other than obligations of the United States issued after September 24, 1917, and originally subscribed for by the taxpayer) the interest upon which is wholly exempt from taxation under this title;"

Limitation of taxable interest, on indebtedness to purchase or carry Government obligations, to such indebtedness as relates only to original purchases by the taxpayer, is new.

95 "(3) Taxes paid or accrued within the taxable year except—

- (a) Income, war-profits, and excess-profits taxes imposed by the authority of the United States.
- (b) So much of the income, war-profits, and excess-profits taxes imposed by the authority of any foreign country or possession of the United States as is allowed as a credit under section 238, and

- (c) Taxes assessed against local benefits of a kind tending to increase the value of the property assessed. In the case of obligors specified in subdivision (b) of section 221 no deduction for the payment of the tax imposed by this title, or any other tax paid pursuant to the contract or provision referred to in that subdivision, shall be allowed, nor shall such tax be included in the gross income of the obligee. The deduction allowed by this paragraph shall be allowed in the case of taxes imposed upon a shareholder or member of a corporation upon his interest as shareholder or member, which are paid by the corporation without reimbursement from the shareholder or member, but in such cases no deduction shall be allowed the shareholder or member for the amount of such taxes. For the purpose of this paragraph, estate, inheritance, legacy, and succession taxes accrue on the due date thereof except as otherwise provided by the law of the jurisdiction imposing such taxes."

The new provisions under this paragraph are:

Specific authority for not including in individual returns of income amount of tax collected from such individuals at the source; the giving to corporations a deduction for tax paid by them, and not reimbursed, for their shareholders upon shares of stock issued by corporations required to collect this tax at the source; allowance of estate, inheritance, legacy and succession taxes.

- 96 "(4) Losses sustained during the taxable year and not compensated for by insurance or otherwise; unless, in order to clearly reflect the income, the loss should in the opinion of the Commissioner be accounted for as of a different period. No deduction shall be allowed for any loss claimed to have been sustained in

any sale or other disposition of shares of stock or securities made after the passage of this Act where it appears that within 30 days before or after the date of such sale or other disposition the taxpayer has acquired (otherwise than by bequest or inheritance) substantially identical property, and the property so acquired is held by the taxpayer for any period after such sale or other disposition, unless such claim is made by a dealer in stock or securities and with respect to a transaction made in the ordinary course of its business. If such acquisition is to the extent of part only of substantially identical property, then only a proportionate part of the loss shall be disallowed. In case of losses arising from destruction of or damage to property, where the property so destroyed or damaged was acquired before March 1, 1913, the deduction shall be computed upon the basis of its fair market price or value as of March 1, 1913;"

Restriction upon reduction of loss from sale of securities is broader here than in paragraph (5) section 214 (§82) for individuals, in that, in this paragraph corporate dealers in securities would appear to be exempt from this provision in respect to transactions in the ordinary course of their business.

- 97 "(5) Debts ascertained to be worthless and charged off within the taxable year (or in the discretion of the Commissioner, a reasonable addition to a reserve for bad debts); and when satisfied that a debt is recoverable only in part, the Commissioner may allow such debt to be charged off in part;"

Provision for charge-off of a reserve or fractional loss is new.

- 98 "(6) The amount received as dividends—
(a) from a domestic corporation other than a corporation entitled to the benefits of section 262, or
(b) from any foreign corporation when it is shown to the satisfaction of the Commissioner

that more than 50 per centum of the gross income of such foreign corporation for the three-year period ending with the close of its taxable year preceding the declaration of such dividends (or for such part of such period as the foreign corporation has been in existence) was derived from sources within the United States as determined under section 217."

- 99 "(7) A reasonable allowance for the exhaustion, wear and tear of property used in the trade or business, including a reasonable allowance for obsolescence. In the case of such property acquired before March 1, 1913, this deduction shall be computed upon the basis of its fair market price or value as of March 1, 1913;"
- 100 "(8) In the case of buildings, machinery, equipment, or other facilities, constructed, erected, installed, or acquired, on or after April 6, 1917, for the production of articles contributing to the prosecution of the war against the German Government, and in the case of vessels constructed or acquired on or after such date for the transportation of articles or men contributing to the prosecution of such war, there shall be allowed, for any taxable year ending before March 3, 1924 (if claim therefor was made at the time of filing return for the taxable year 1918, 1919, 1920, or 1921) a reasonable deduction for the amortization of such part of the cost of such facilities or vessels as has been borne by the taxpayer, but not again including any amount otherwise allowed under this title or previous Acts of Congress as a deduction in computing net income. At any time before March 3, 1924, the Commissioner may, and at the request of the taxpayer shall, re-examine the return, and if he then finds as a result of an appraisal or from other evidence that the deduction originally allowed was incorrect, the income, war-profits, and excess-profits taxes for the year or years affected shall be redetermined and the amount of tax due upon such redetermination, if any, shall be paid upon notice and demand by the collector, or the amount of tax over-

paid, if any, shall be credited or refunded to the taxpayer in accordance with the provisions of section 252;”

This provision definitely fixes the time in which war amortization claims may be settled.

- 101 “(9) In the case of mines, oil and gas wells, other natural deposits, and timber, a reasonable allowance for depletion and for depreciation of improvements, according to the peculiar conditions in each case, based upon cost including cost of development not otherwise deducted: *Provided*, That in the case of such properties acquired prior to March 1, 1913, the fair market value of the property (or the taxpayer’s interest therein) on that date shall be taken in lieu of cost up to that date: *Provided further*, That in the case of mines, oil and gas wells, discovered by the taxpayer, on or after March 1, 1913, and not acquired as the result of purchase of a proven tract or lease, where the fair market value of the property is materially disproportionate to the cost, the depletion allowance shall be based upon the fair market value of the property at the date of the discovery, or within thirty days thereafter: *And provided further*, That such depletion allowance based on discovery value shall not exceed the net income, computed without allowance for depletion, from the property upon which the discovery is made, except where such net income so computed is less than the depletion allowance based on cost or fair market value as of March 1, 1913; such reasonable allowance in all the above cases to be made under rules and regulations to be prescribed by the Commissioner with the approval of the Secretary. In the case of leases the deductions allowed by this paragraph shall be equitably apportioned between the lessor and lessee;”
- 102 “(10) In the case of insurance companies (other than life insurance companies), in addition to the above (unless otherwise allowed):
- (a) The net addition required by law to be made within the taxable year to reserve funds (in-

cluding in the case of assessment insurance companies the actual deposit of sums with State or Territorial officers pursuant to law as additions to guarantee or reserve funds); and

- (b) The sums other than dividends paid within the taxable year on policy and annuity contracts. After December 31, 1921, this subdivision shall apply only to mutual insurance companies other than life insurance companies."

103 "(11) In the case of corporations (except those taxed under section 243) issuing policies covering life, health, and accident insurance combined in one policy issued on the weekly premium payment plan continuing for life and not subject to cancellation, in addition to the above, such portion of the net addition (not required by law) made within the taxable year to reserve funds as the Commissioner finds to be required for the protection of the holders of such policies only. This subdivision shall not be in effect after December 31, 1921;"

104 "(12) In the case of mutual marine insurance companies, there shall be allowed, in addition to the deductions allowed in paragraphs (1) to (10), inclusive, and paragraph (14), unless otherwise allowed, amounts repaid to policyholders on account of premiums previously paid by them, and interest paid upon such amounts between the ascertainment and the payment thereof;"

105 "(13) In the case of mutual insurance companies (including interinsurers and reciprocal underwriters, but not including mutual life or mutual marine insurance companies) requiring their members to make premium deposits to provide for losses and expenses, there shall be allowed, in addition to the deductions allowed in paragraphs (1) to (10), inclusive, and paragraph (14), unless otherwise allowed, the amount of premium deposits returned to their policyholders and the amount of premium deposits retained for the payment of losses, expenses, and reinsurance reserves;"

106 "(14) If property is compulsorily or involuntarily converted into cash or its equivalent as a result of—

- (a) Its destruction in whole or in part,
- (b) Theft or seizure, or
- (c) An exercise of the power of requisition or condemnation, or the threat or imminence thereof; and if the taxpayer proceeds forthwith in good faith, under regulations prescribed by the Commissioner with the approval of the Secretary, to expend the proceeds of such conversion in the acquisition of other property of a character similar or related in service or use to the property so converted, or in the acquisition of 80 per centum or more of the stock or shares of a corporation owning such other property, or in the establishment of a replacement fund, then there shall be allowed as a deduction such portion of the gain derived as the portion of the proceeds so expended bears to the entire proceeds. The provisions of this paragraph prescribing the conditions under which a deduction may be taken in respect of the proceeds or gains derived from the compulsory or involuntary conversion of property into cash or its equivalent, shall apply so far as may be practicable to the exemption or exclusion of such proceeds or gains from gross income under prior income, war-profits, and excess-profits tax Acts." (See ¶89.)"

ITEMS NOT DEDUCTIBLE

Section 215—

- (a) That in computing net income no deduction shall in any case be allowed in respect of—
 - 107 (1) Personal, living, or family expenses;
 - 108 (2) Any amount paid out for new buildings or for permanent improvements or betterments made to increase the value of any property or estate;

- 109 (3) Any amount expended in restoring property or in making good the exhaustion thereof for which an allowance is or has been made, or
- 110 (4) Premiums paid on any life insurance policy covering the life of any officer or employee, or of any person financially interested in any trade or business carried on by the taxpayer, when the taxpayer is directly or indirectly a beneficiary under such policy.
- 111 (b) Amounts paid under the laws of any State, Territory, District of Columbia, possession of the United States, or foreign country as income to the holder of a life or terminable interest acquired by gift, bequest, or inheritance shall not be reduced or diminished by any deduction for shrinkage (by whatever name called) in the value of such interest due to the lapse of time, nor by any deduction allowed by this Act for the purpose of computing the net income of an estate or trust but not allowed under the laws of such State, Territory, District of Columbia, possession of the United States, or foreign country for the purpose of computing the income to which such holder is entitled."

This might refer to amortization of premiums of investments, depreciation of physical property, and depletion of natural resources, in connection with the principal of a trust or estate. If so, then the holding would be that a beneficial interest therein shall not be reduced by means of any of these considerations (as would be done were the interest not in trust) unless such deduction as would be allowable under this Act is allowable to such interests under the laws of the jurisdiction under which the estate or trust was created.

The specific reason given for this provision was stated as follows:

"Under existing law (Act 1918) persons receiving by gift, bequest or inheritance a life or other terminable interest in property frequently capitalized the expected future income, set up the value of this expectation as corpus or principal, and thereafter claimed a deduction for exhaustion of this so-called principal on the ground that with the passage of time the "principal" or corpus is gradually shrinking or wasting."

CORPORATIONS EXEMPT FROM TAXATION UNDER THE ACT:

Section 231—

- 112 "(1) Labor, agricultural, or horticultural organizations;
- 113 "(2) Mutual savings banks not having a capital stock represented by shares;
- 114 "(3) Fraternal beneficiary societies, orders, or associations:
 - (a) operating under the lodge system or for the exclusive benefit of the members of a fraternity itself operating under the lodge system; and
 - (b) providing for the payment of life, sick, accident, or other benefits to the members of such society, order, or association or their dependents;
- 115 "(4) Domestic building and loan associations substantially all the business of which is confined to making loans to members; and co-operative banks without capital stock organized and operated for mutual purposes and without profit;
- 116 "(5) Cemetery companies owned and operated exclusively for the benefit of their members or which are not operated for profit; and any corporation chartered solely for burial purposes as a cemetery corporation and not permitted by its charter to engage in any business not necessarily incident to that purpose, no part of the net earnings of which

inures to the benefit of any private stockholder or individual;

- 117 “(6) Corporations, and any community chest, fund, or foundation, organized and operated exclusively for religious, charitable, scientific, literary, or educational purposes, or for the prevention of cruelty to children or animals, no part of the net earnings of which inures to the benefit of any private stockholder or individual;
- 118 “(7) Business leagues, chambers of commerce, or boards of trade, not organized for profit and no part of the net earnings of which inures to the benefit of any private stockholder or individual;
- 119 “(8) Civic leagues or organizations not organized for profit but operated exclusively for the promotion of social welfare;
- 120 “(9) Clubs organized and operated exclusively for pleasure, recreation, and other nonprofitable purposes, no part of the net earnings of which inures to the benefit of any private stockholder or member;
- 121 “(10) Farmers’ or other mutual hail, cyclone, or fire insurance companies, mutual ditch or irrigation companies, mutual or co-operative telephone companies, or like organizations of a purely local character, the income of which consists solely of assessments, dues, and fees collected from members for the sole purpose of meeting expenses;
- 122 “(11) Farmers’, fruit growers’, or like associations, organized and operated as sales agents for the purpose of marketing the products of members and turning back to them the proceeds of sales, less the necessary selling expenses, on the basis of the quantity of produce furnished by them; or organized and operated as purchasing agents for the purpose of purchasing supplies and equipment for the use of members and turning over such supplies and equipment to such members at actual cost, plus necessary expenses;
- 123 “(12) Corporations organized for the exclusive purpose of holding title to property, collecting income there-

from, and turning over the entire amount thereof, less expenses, to an organization which itself is exempt from the tax imposed by this title;

- 124 "(13) Federal land banks and national farm loan associations as provided in section 26 of the Act approved July 17, 1916, entitled "An Act to provide capital for agricultural development, to create standard forms of investment based upon farm mortgage, to equalize rates of interest upon farm loans, to furnish a market for United States bonds, to create Government depositaries and financial agents for the United States, and for other purposes";
- 125 "(14) Personal service corporations. This subdivision shall not be in effect after December 31, 1921."

RETURNS OF INCOME

126 A return of income is a statement "required by the Government" of the total gross income of a taxable class and such other information as may be called for, and of the several deductions and the amount of each, provided by the statute as an offset against gross income, and with such particulars of information concerning each deduction as may be called for, together with the amount of personal exemptions claimed, and such information as may be called for in connection with such claims.

Who Are Required to Make Returns of Income:

127 Individuals, Partnerships, Estates or Trusts, Corporations, Withholding Agents.

Individuals:

128 Make returns of income on Form 1040A for incomes of \$5,000 and less for 1921 and for incomes of \$6,000 and less thereafter;

129 On Form 1040 for incomes in excess of \$5,000 for 1921 and in excess of \$6,000 for subsequent years. Husband and wife having separate incomes may make separate returns, or a joint return as they may elect. If the separate income is of an amount sufficient to be subject to surtax, they should make separate returns of income. In certain states

having community property laws, husband and wife are permitted to make separate returns of income from the community property. The income tax of individuals is computed and tax paid on the basis shown by these returns. Individual income is subject to a normal tax and a surtax, according to the amount thereof.

Partnerships:

130 Make returns of income on Form 1065. These returns show gross income, deductions, and net income. Also the names and addresses of the several partners and their respective shares of the net income, separating net income into its several classes as called for by the return. -

Estates or Trusts:

131 Make returns of income on Form 1041. These returns show the gross income and deductions of the estate or trust and the net income. The names and addresses of the several beneficiaries and the portions of the annual net income to which such beneficiaries are entitled and what portion, if any, of such income is to be retained by the estate or trust, are also required to be shown.

132 The trustee or fiduciary acting for the estate or trust may also be required under certain conditions specified by the statute and regulations, to make a return on Form 1040A or Form 1040 for the beneficiaries, and or for the trust itself in case of retained income on which the estate or trust is required to pay a tax.

133 Forms 1065 and 1041 are information returns and are used in connection with the returns of individuals receiving an income reported on these information Forms. Additional returns of information are required on Forms 1098 (payments to non-resident aliens) and 1099 for payments to citizens and resident aliens.

Corporations:

134 Make returns of income on Form 1120, for both the income tax and excess-profits tax.

Withholding Agents:

135 Make returns on Forms 1012 and 1013 for tax collected from interest paid on bonds, mortgages, deeds of trust, or

similar obligations of corporations which contain a tax covenant. On Form 1042 for all other tax collected at the source. 136 Sections of the Law requiring returns are 221 (c) for withholding returns; 223 for individual returns; 224 for partnership and personal service corporation returns; 225 for fiduciary returns; 226 for returns covering a period less than 12 months; 239 and 240 for corporation returns; 256, 254 and 255 for information returns.

PERIOD COVERED BY RETURNS OF INCOME

137 Returns of income are to cover a period of 12 months, except in cases where a taxpayer has had a taxable status for less than 12 months at return time, and has an amount of income or other conditions requiring the making of a return of income, or in the case of a change from one accounting period to another, as a result of which there may be a period of time less than 12 months for which return of income will be required.

138 Corporations are required to make returns of income on the basis of the calendar year, unless they have a fiscal year other than the calendar year.

139 A corporation which is chartered within the calendar year and does not establish a fiscal year, will be required to make a return of income as at the end of the calendar year in which it was incorporated. If it makes returns on the basis of a calendar year or a fiscal year, and desires to change to some other accounting period, by giving the notice required by regulations, it may make such change, but it will be required to make return of income for the time between the close of its old accounting period and the date designated as the close of its new accounting period; as, where a corporation has been making returns on the basis of a calendar year and desires to have a fiscal year, say, beginning July 1 and ending June 30, it would file with the Commissioner of Internal Revenue a notice of this intention and request permission to make the change, which request must be filed not later than 30 days before March 1st next preceding the date designated for close of the fiscal year and upon receiving permission to make the change, returns of income would be required for the period between December 31 and June 30, and thereafter returns would be made on

the basis of the fiscal year covering a period of 12 months.

140 Persons dying within a calendar year and having an amount of net income in excess of allowable personal exemptions at the time of death, or a gross income of \$5,000, regardless of the amount of net income, have a status which makes it necessary for the personal representative to make a return of income for the decedent.

141 The section of the Law providing for returns for less than 12 months is section 226. Paragraph (c) of this section contains an entirely new provision for the computation of tax on such returns. This may be illustrated as follows:

142 Take the case of a married man living with wife but without other dependents, who dies March 31. A return of income made for him by his executor discloses a net income of \$20,000 between January 1 and March 31, 1921.

The return covers three months or $\frac{1}{4}$ of the calendar year.

Applying the rule under section 226 (c):

$\$20,000 \times 12 \text{ months} \div 3 \text{ months} =$	annual
basis of	\$80,000
Less personal exemption	2,000
Net income subject to tax.....	\$78,000
Total tax on this sum.....	19,970
$\frac{1}{4}$ of this sum is the tax to be paid.....	4,992.50

Under the Act of 1918 this tax would
have been \$1,990.00

The tax to be paid under the Act of 1921 is 24.96% of the net income.

The tax which would have been payable under the Act of 1918 would have been 9.95% of the net income. In other words, the Act of 1921 increases the tax in this case 250%.

In addition to the foregoing will come, in many cases, the Federal estate tax and State inheritance taxes.

WHEN RETURNS ARE TO BE FILED—TIME AND PLACE OF FILING

143 Returns of income made on the basis of the calendar year must be filed after December 31 of the year for which return is made, and not later than March 15 next following.

(This includes information returns.)

144 Returns which are made on the basis of the fiscal year must be made after the close of such fiscal year, and not later than the 15th day of the third month next following the close of the fiscal year.

145 Returns of income must be filed with the Collector of Internal Revenue for the district in which the taxpayer resides, or has his principal place of business, and if these are not within the United States, then with the Collector of Internal Revenue at Baltimore, Maryland. Returns of information are to be filed with the Commissioner of Internal Revenue—Sorting Division—Washington, D. C., not later than March 15th.

146 Withholding returns must be filed not later than March 1st and are to be filed with the Collector of Internal Revenue for the district in which the withholding agent makes his return.

147 Sections of the Law controlling are: 227 for individuals, partnerships and fiduciaries; section 241 for corporations; section 221 (c) for withholding returns; section 256 and regulations for information returns.

148 Reference is made to the actual forms of return for method of statement of income and computation of tax.

UNDERSTATEMENT OF INCOME

149 Section 228 of the Law provides for action of the Collector of Internal Revenue when he suspects the income reported to be less than it should be.

TAXATION OF INDIVIDUAL OR PARTNERSHIP INCOME, AS CORPORATE INCOME

150 Section 229 of the Law provides that if any individual or partnership business in which capital is a material-income-producing factor, and the net income of which for the taxable year 1921 was not less than 20% of its invested capital for such year, the business may be incorporated at any time before or on March 23, 1922, and in such case have its net income for 1921 taxed as corporate income. It is also provided that if this provision is availed of, the Capital Stock Tax shall be paid by such taxpayer as though the corporation had been in existence from and after January 1, 1921. It

would seem that unless this provision of Law is taken advantage of before March 15, 1922, it will be necessary to apprise the Commissioner of Internal Revenue of intention, and secure from him proper action to obviate penalty for failure to file return in time. Also that within a reasonable time after incorporation, the capital stock tax return for 1921 should be filed and that tax paid.

TAX ON INCOME OF INSURANCE COMPANIES

151 Sections 242 to 247 inclusive provide specially for computation of net income and tax on income of insurance companies.

CREDIT FOR INCOME TAX (INCOME EXEMPT FROM TAX)

Section 216—Law:

153 **Individuals—For Normal Tax Only**—(The income exempt from surtax is \$5,000 for 1921 and \$6,000 for 1922 and thereafter.) For the purpose of computation of normal income tax, there shall be allowed to citizens, resident aliens and estates or trusts, as a credit, an amount to be deducted from the net income otherwise subject to the *normal* income tax, the following:

(a) The amount received as dividend from domestic corporations.

154 (1) Foreign corporations are for this purpose to be considered domestic corporations, when more than fifty (50) per cent of their net income for the three year period ending with the close of the taxable year preceding the declaration of such dividend (or for such part of such period as the corporation has been in existence) was derived from sources within the United States as determined under the provisions of Section 217 of the law. This showing must be made in accordance with regulations prescribed by the Commissioner of Internal Revenue.

155 (2) Domestic corporations are for this purpose to be considered foreign corporations, if

eighty (80) per cent or more of their gross income from all sources for the three-year period immediately preceding the close of the fiscal year (or for such part of such period immediately preceding the close of such taxable year as may be applicable) was derived from sources within a possession of the United States (not including the Virgin Islands); and if also fifty (50) per cent of the said gross income for such period or such part of such period was derived from the active conduct of a trade or business within a possession of the United States either on their own account or as employee or agent of another. Dividends from this class of corporations are not deductible as a credit in computing normal income tax.

- 156 (b) Amounts received as interest on obligations of the United States and bonds of the war finance corporation, in excess of allowable exemptions and which is included in taxable gross income in the return of income.
- 157 (c) (1) In the case of a single person, a personal exemption of \$1,000.
- (2) In the case of head of a family (*an individual who actually supports and maintains in one household one or more individuals who are closely connected with him by blood relationship, relationship by marriage, or by adoption, and whose right to exercise family control and provide for these dependent individuals, is based upon some moral or legal obligation*), or a married person living with husband or wife, a personal exemption of \$2,500, unless the net income is in excess of \$5,020.83, in which event the personal exemption shall be \$2,000. A husband and wife living together shall receive but one personal exemption of \$2,500 or \$2,000, as the case may be, and if they make separate returns of income, such exemption may be taken by either or divided be-

tween them in such proportion as they may elect.

- 158 (d) \$400 for each person (other than husband or wife) dependent upon and receiving his chief support from the taxpayer, if such dependent person is under eighteen years of age or is incapable of self support because mentally or physically defective.
- 159 (e) In the case of a non-resident alien individual or an individual a citizen of the United States who is entitled to the benefits of Section 262 of the law because of income from within a possession of the United States, the personal exemption shall be only \$1,000, and he shall not be entitled to the credit for dependents.
- 160 (f) The status of the taxpayer on the last day of the period for which return is made, determines the amount of exemption allowable to such taxpayer under (c), (d) and (e) herein. An individual who dies during a taxable year takes exemption according to his status on the day of his death. In such case, full credit is allowed the surviving spouse, if any, according to his or her status at the close of the period for which survivor makes return of income. Estates or trusts required to make returns of income and pay tax, have the same personal exemption as a single individual.

CREDITS ALLOWED TO CORPORATIONS (FOR THE PURPOSE ONLY OF COMPUTING INCOME TAX)

- 161 Section 236: In ascertaining the amount of total net income to be subjected to corporation income tax, there shall be allowed as credits against net income—
- 162 (a) The amount received as interest from obligations of the United States and bonds issued by the War Finance Corporation, in excess of allowable exemptions and which is included in gross income.
- 163 (b) In the case of a domestic corporation, the net income of which is \$25,000 or less, a specific credit of \$2,000, but if the net income is more than \$25,000, the tax imposed by Section 230 of the law shall not exceed the tax which would be payable if the \$2,000 credit were allowed, plus the amount of net income in excess of \$25,000.

- 164 The language of the Statute indicates that there is some amount in excess of \$25,000 the income tax on which at the rate for corporate income and without exemption, will produce an amount of tax equal to the sum of corporation income tax on \$25,000 with exemption of \$2,000 plus the difference between the unknown sum and \$25,000. By equation, we find this sum for 1921 to be

\$25,222.22 @ 10% = ...	\$2,522.22
Net income of	\$25,000.00
Less specific exemption	2,000.00
Taxable Income	\$23,000.00
Income Tax at 10%	2,300.00
Add difference between \$25,000.00 and larger sum	222.22
Amount of tax	\$2,522.22

- 165 For 1922 and subsequent years, we find the unknown sum to be—

\$25,285.71 @ 12½% = ...	\$3,160.71
Net Income of	\$25,000.00
Less personal exemption	2,000.00
Taxable Income	23,000.00
Income Tax @ 12½% = ...	2,875.00
Add difference between \$25,000 and larger sum	285.71
Amount of tax	3,160.71

- 166 For 1921, corporations are required to pay an excess profits tax (possibly in some cases, a war profits tax). A question then arises whether determination of applicability of the \$2,000 exemption depends on the amount of net income to be taxed for both income and excess profits tax, or on the amount of net income after credit for excess profits tax and other credits not subject to income tax.

The latter consideration determines the question.

- 167 It will be noted that paragraph (b) of Section 236 deals

only with the use of the specific credit of \$2,000 for the purpose of computation of income tax.

- 168 Paragraph (c) of the same section (omitting details of prescription in connection with the computation for fiscal years), provides that in computing income tax, the amount of any war profits tax and excess profits tax imposed by the Act of Congress for the same taxable year, shall be credited against the net income for the period of computation.
- 169 It follows, therefore, that the amount of income subject to income tax is the remainder after credit for war profits and excess profits tax (and also for other credits not subject to income tax). Therefore, when this remainder does not exceed \$25,222.22 subject to income tax for 1921, the \$2,000 specific credit for corporations is to be used in computing the income tax.
- 170 While the excess profits tax is repealed as of January 1, 1922, there would remain certain items which would be included in gross income, but which would not be subject to income tax for 1922 and subsequent years. Eliminating these items the specific credit of \$2,000 will be used until the amount of net income subject to income tax exceeds \$25,285.71. When net income subject to income tax exceeds this sum no credit of \$2,000 will be allowed.

Example with excess profits tax for 1921:

	Net Income.....	\$25,000.00
Capital.....	\$100,000.00	
For credit, 8% of Capital.....	8,000.00	
Plus.....	3,000.00	
Excess Profits Tax Credit.....	\$11,000.00	

Computation of Tax

	Income	Credit	Balance	Rate	Tax
First Bracket, 20% of capital.....	\$20,000.00	\$11,000.00	\$9,000.00	20%	\$1,800.00
Second Bracket, Balance.....	5,222.22	.....	5,222.22	40%	2,088.88
Net Income.....	\$25,222.22	\$11,000.00	\$14,222.22	Excess Profits Tax,	\$3,888.88
Credit Excess Profits Tax.....					
Tax.....					\$3,888.88
Specific Credit.....		2,000.00	5,888.88		
Balance subject to Income Tax.....	\$19,333.34	@ 10% = Income Tax.....			\$1,933.33
			Total Tax.....		\$5,822.21

Again:

	Net Income	\$25,222.22
	\$25,000.00	.....
Credit Excess Profits Tax..	\$3,888.88	.....
Specific Exemption.....	2,000.00	5,888.88
		5,888.88
Remainder Subject to In-		
come Tax.....	.....	\$19,111.11
		\$19,333.34
Income Tax @ 10%.....	.....	\$1,911.11
Add 10% of Excess.....	.....	22.22
		
	.....	\$1,933.33
		

171 It will be noted that a specific exemption of \$2,000 having been allowed against a remainder of less than \$25,000 after credit for excess profits tax, the difference of \$222.22 is not to be added to the tax on \$25,000 with an allowance of \$2,000, but only the amount of income tax on \$222.22, or \$22.22.

172 Differently stated, we have:

	Net Income	\$25,222.22
	\$25,000.00	.....
Credit of Excess Profits Tax.....	3,888.88	3,888.88
Remainder less than \$25,000.....	\$21,111.11	\$21,333.34
Tax @ 10%.....	\$2,111.11	\$2,133.33
Add Tax on Excess over \$25,000.....	22.22	.....
	\$2,133.33	.....
Less 10% on allowable exemption of		
\$2,000.....	200.00	200.00
Income Tax.....	\$1,933.33	\$1,933.33

173

Capital \$100.000

Net Income \$26,000.00

For credit @ 8% of capital..... 8,000

Plus Specific Credit 3,000

Excess Profits Credit.....\$11,000

	Income	Credit	Balance	Rate	Tax
First Bracket, 20% of Capital..... =	\$20,000	\$11,000	\$9,000	20%	\$1,800
Second Bracket, Balance.	6,000	.....	6,000	40%	2,400
Net Income..... =	\$26,000	\$11,000	\$15,000		\$4,200

Credit Excess Profits Tax 4,200

Balance for Income Tax

less than \$25,222.22 = \$21,800

Use specific credit..... 2,000

Balance for Income Tax \$19,800 @ 10% = Income Tax..... \$1,980

Total Tax = ... \$6,180

174

Capital \$100,000

Net Income \$50,000

For credit @ 8% of capital..... 8,000

Plus Specific Credit..... 3,000

Excess Profits Credit.....\$11,000

	Income	Credit	Balance	Rate	Tax
First Bracket, 20% of Capital..... =	\$20,000	\$11,000	\$9,000	20%	\$1,800
Second Bracket, Balance.	30,000	.....	30,000	40%	12,000
Net Income..... =	\$50,000	\$11,000	\$39,000		\$13,800

Credit Excess Profits

Tax..... \$13,800

Remainder in excess of

\$25,222.22..... \$36,200 @ 10% = Income Tax..... \$3,620

Total Tax.....\$17,420

175 (c) The amount of any war-profits and excess-profits taxes imposed by Act of Congress for the same taxable year. The credit allowed by this subdivision shall be determined as follows:

- 176 (1) In the case of a corporation which makes return for a fiscal year beginning in 1920 and ending in 1921, in computing the income tax as provided in subdivision (a) of section 205, the portion of the war-profits and excess-profits tax computed for the entire period under clause (1) of subdivision (a) of section 335 shall be credited against the net income computed for the entire period as provided in clause (1) of subdivision (a) of section 205, and the portion of the war-profits and excess-profits tax computed for the entire period under clause (2) of subdivision (a) of section 335 shall be credited against the net income computed for the entire period as provided in clause (2) of subdivision (a) of section 205.
- 177 (2) In the case of a corporation which makes return for a fiscal year beginning in 1921, and ending in 1922, in computing the income tax as provided in subdivision (b) of section 205, the war-profits and excess-profits tax computed under subdivision (b) of section 335 shall be credited against the net income computed for the entire period as provided in clause (1) of subdivision (b) of section 205.

CREDIT, AGAINST TAX COMPUTED ON RETURN, OF TAX PAID ON INCOME INCLUDED IN THE RETURN.

Section 222: Individuals—The tax computed under part two of the Income Tax Law, shall be credited with:

- 178 (a) (1) In the case of a citizen of the United States: the amount of any income, war-profits tax, and excess profits tax paid during the taxable year to any foreign country or to any possession of the United States.
- 179 (2) In the case of a resident of the United States:
- (a) The amount of any such tax paid during the taxable year to any possession of the United States.
 - (b) The amount of any such taxes paid during the taxable year to any foreign coun-

try, if the foreign country of which such resident alien is a citizen or subject, in imposing such taxes, allows a similar credit to citizens of the United States residing in such country.

- 180 (3) In the case of any such individual in the foregoing classes who is a member of a partnership or the beneficiary of an estate or trust, his proportionate share of such taxes of the partnership or the estate or trust, paid during the taxable year to a foreign country or to any possession of the United States, as the case may be.
- 181 (4) The above credits shall not be allowed in the case of a citizen entitled to the benefits of section 262; and in no other case shall the amount of credit taken under this subdivision exceed the same proportion of the tax, against which such credit is taken, which the taxpayer's net income (computed without deduction for any income, war-profits, and excess profits taxes imposed by any foreign country or possession of the United States) from sources without the United States bears to his entire net income (computed without such deduction) for the same taxable year.

Example:

	United States Net Income	Net Income in France	Total Net Income
	\$20,000	\$10,000	\$30,000
French Tax.....		\$1,250	.....
United States Tax.....		.....	\$3,890
French net income without deduction for French tax.		\$10,000	.....
United States taxable in- come without deduc- tion for French tax.....		\$30,000 = $\frac{1}{3}$	.....
United States tax $\$3,890 \times \frac{1}{3}$ = credit, \$1,296.67			\$1,250
Credit cannot exceed amount of foreign tax			
Balance of tax to be paid on return			\$2,640

- 182 (5) Tax collected at the source on income included in the return of income.
- 183 (b) If accrued taxes when paid differ from the amounts claimed as credits by the taxpayer, or if any tax paid is refunded in whole or in part, the taxpayer shall notify the Commissioner, who shall redetermine the amount of the tax due under Part II of this title for the year or years affected, and the amount of tax due upon such redetermination, if any, shall be paid by the taxpayer upon notice and demand by the collector, or the amount of tax overpaid, if any, shall be credited or refunded to the taxpayer in accordance with the provisions of section 252. In the case of such a tax accrued but not paid, the Commissioner as a condition precedent to the allowance of this credit may require the taxpayer to give a bond with sureties satisfactory to and to be approved by the Commissioner in such penal sum as the Commissioner may require, conditioned for the payment by the taxpayer of any amount of tax found due upon any such redetermination; and the bond herein prescribed shall contain such further conditions as the Commissioner may require.
- 184 (c) These credits shall be allowed only if the taxpayer furnishes evidence satisfactory to the Commissioner showing the amount of income derived from sources without the United States, and all other information necessary for the verification and computation of such credits.
- 185 (d) If the taxpayer makes a return for a fiscal year beginning in 1920 and ending in 1921, the credit for the entire fiscal year, shall, notwithstanding any provision of this Act, be determined under the provisions of this section; and the Commissioner is authorized to disallow, in whole or in part, any such credit which he finds has already been taken by the taxpayer.

CORPORATIONS—CREDIT FOR TAX PAID

Section 238:

- 186 (a) In the case of a domestic corporation, the total tax imposed by the Revenue Act of 1921, shall be credited

with the amount of any income, war-profits and excess profits tax, paid during the same taxable year, to any foreign country, or to any possession of the United States: Provided, that the amount of credit shall in no case exceed that proportion of the United States tax, which the taxpayer's foreign net income computed without deduction for foreign tax, bears to its entire net income computed without deduction for foreign tax, for the same taxable year.

In the case of domestic insurance companies subject to the tax imposed by section 243 (income tax only) or section 246 (income and excess profits tax for 1921 and income tax only thereafter), the term "net income" as used in these paragraphs means the net income as defined in sections 245 and 246 respectively.

- 187 (b) If accrued taxes when paid differ from the amounts claimed as credits by the corporation, or if any tax paid is refunded in whole or in part, the corporation shall at once notify the Commissioner who shall redetermine the amount of the income, war-profits and excess-profits taxes for the year or years affected, and the amount of taxes due upon such redetermination, if any, shall be paid by the corporation upon notice and demand by the collector, or the amount of taxes overpaid, if any, shall be credited or refunded to the corporation in accordance with the provisions of section 252. In the case of such a tax accrued but not paid, the Commissioner as a condition precedent to the allowance of this credit may require the corporation to give a bond with sureties satisfactory to and to be approved by him in such penal sum as he may require, conditioned for the payment by the taxpayer of any amount of taxes found due upon any such redetermination; and the bond herein prescribed shall contain such further conditions as the Commissioner may require.
- 188 (c) These credits shall be allowed only if the taxpayer furnishes evidence satisfactory to the Commissioner showing the amount of income derived from sources without the United States, and all other information

necessary for the verification and computation of such credits.

- 189 (d) If a domestic corporation makes a return for a fiscal year beginning in 1920 and ending in 1921, the credit for the entire fiscal year shall, notwithstanding any provision of this Act, be determined under the provisions of this section; and the Commissioner is authorized to disallow, in whole or in part, any such credit which he finds has already been taken by the taxpayer.
- 190 (e) For the purposes of this section a domestic corporation which owns a majority of the voting stock of a foreign corporation from which it receives dividends (not deductible under section 234), in any taxable year shall be deemed to have paid the same proportion of any income, war-profits or excess-profits taxes paid by such foreign corporation to any foreign country or to any possession of the United States, upon or with respect to the accumulated profits of such foreign corporation from which such dividend was paid, which the amount of such dividends bears to the amount of such accumulated profits: Provided, That the credit allowed to any domestic corporation under this subdivision shall in no case exceed the same proportion of the taxes against which it is credited, which the amount of such dividends bears to the amount of the entire net income of the domestic corporation in which such dividends are included. The term "accumulated profits" when used in this subdivision in reference to a foreign corporation, means the amount of its gains, profits, or income in excess of the income, war-profits and excess profits taxes imposed upon or with respect to such profits or income; and the Commissioner with the approval of the Secretary shall have full power to determine from the accumulated profits of what year or years such dividends were paid, treating dividends paid in the first sixty days of any year as having been paid from the accumulated profits of the preceding year or years (unless to his satisfaction shown otherwise) and in other respects treating dividends as

having been paid from the most recently accumulated gains, profits or earnings. In the case of a foreign corporation, the income, war-profits and excess-profits taxes of which are determined on the basis of an accounting period of less than one year, the word "year" as used in this subdivision shall be construed to mean such accounting period.

Example:

191 Take a United States corporation with a capital of \$500,000 and a net income of \$100,000, including a Canadian dividend; total tax \$40,420. The United States corporation owns the entire capital stock of the Canadian corporation, which has an outstanding capital stock of

\$100,000 and a net income of.....	\$20,000.00
Canadian Income Tax @ 10%.....	2,000.00

Balance of accumulated profits subject to dividend.....	18,000.00
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10% dividend paid to United States corporation	10,000.00
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Ratio of dividend to accumulated profits from which dividend paid = $5/9$, the proportion of Canadian tax which may be deducted by the United States corporation:

Canadian tax paid, $\$2,000 \times 5/9 = \$1,111.11$

Provided, that the credit for foreign tax allowed to the United States corporation shall in no case exceed the proportion of the United States tax which the amount of such dividend bears to the amount of the United States net income in which such dividend was included.

United States net income in which

Canadian dividend included.....	\$100,000.00
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Amount of Canadian dividend.....	10,000.00
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Ratio of Canadian dividend to United States net income = $1/10$:

United States tax $\$40,420 \times 1/10 =$

Maximum allowance unless Canadian ratio produces less.....	\$4,042.00
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In this case Canadian ratio being "less" will be used.

192 Foreign corporations take credit for tax collected at the source on income included in a return of income.

193 (f) For the purposes of this section a corporation entitled to the benefits of section 262 shall be treated as a foreign corporation.

PAYMENT, OR COLLECTION, OF TAX AT THE SOURCE.

Who Are Subject: Sections 221 and 237 of the law—

194 This provision of law applies to nonresident alien individuals; partnerships composed in whole or in part of nonresident alien individuals; domestic partnerships which own tax-free covenant bonds; foreign corporations not engaged in trade or business within the United States and having no office or place of business therein.

Applies to What:

195 Interest (not including interest on deposits with persons carrying on a banking business, paid to persons not engaged in business in the United States and not having an office or place of business therein).

Rents

Salaries

Wages

Premiums

Annuities

Compensations

Remunerations

Emoluments, or

Other fixed or determinable annual or periodical gains, profits, and income,

But only for the normal tax to individuals and the income tax to foreign corporations.

AMOUNT OR RATE TO BE PAID BY COLLECTION AT THE SOURCE OF THE INCOME.

196 On all of the above, with the exception of interest on tax-free covenant bonds, the rate to be collected from payments to nonresident alien individuals and partnerships is 8%; from payments to foreign corporations subject to this method of collection, the rate for income tax for 1921 is 10% and for subsequent years, 12½%, of the payments made.

TAX COVENANT INTEREST.

197 Where bonds, mortgages, deeds of trust, or other similar obligations of corporations containing a contract or provision by which obligor agrees to pay any portion of the

tax imposed by the Income Tax Law upon the obligee, or to reimburse the obligee for any portion of the tax, to pay the interest without deduction for any tax which the obligor may be required or permitted to pay thereon, or to retain therefrom under any law of the United States—such corporate obligation is said to contain a tax-free covenant. In such cases the obligor is required to deduct and withhold from the interest paid on such obligations, a tax equal to 2% of the interest paid, whether such interest is payable annually or at shorter or longer periods and whether payable to a nonresident alien individual or to an individual citizen or resident of the United States or to a partnership, or to a foreign corporation not engaged in trade or business within the United States and not having an office or place of business therein. Citizens and resident aliens may receive tax covenant interest free from all collection at the source (they assuming all tax liability themselves) by filing with the withholding agent, either at the time of collection of the interest or not later than February 1 of the year in which the return of income for the preceding calendar year is to be made, a notice in writing claiming the benefit of the personal exemptions provided by section 216 of the law. Nonresident alien individuals may likewise receive such interest free from collection at the source (they assuming all tax liability) by furnishing information and filing the same with the withholding agent in manner and form to be prescribed by the Commissioner of Internal Revenue.

LIMIT OF AMOUNT OF TAX FREE COVENANT INTEREST WHICH MAY BE COLLECTED FREE FROM COLLECTION AT THE SOURCE.

198 The total of personal exemptions to which the taxpayer may be entitled, is the limit of claims for exemption from collection of 2% normal tax at the source on tax covenant interest.

Single individuals (citizens or resident aliens), and non-resident aliens, have a personal exemption of \$1,000 each.

Heads of families or married persons living together and having taxable net income not in excess of \$5,000 have a personal exemption of \$2,500 per head of family or married couple living together, or \$2,000 if the taxable net income exceeds \$5,000. (See ¶157, exemption in computing tax.)

Citizen or resident alien taxpayers (whether single or

married or heads of families) who are the chief support of dependents under eighteen years of age or of persons over eighteen years of age if such persons are incapable of self support because of physical or mental disability, have an exemption of \$400 for each such dependent.

Nonresident alien taxpayers do not have an exemption for dependents.

199 The foregoing exemptions are personal to the taxpayer and when the amount thereof is equaled by tax covenant interest received free from collection at the source, any further receipt of such interest is subject to collection at the source.

HOW EXEMPTION IS CLAIMED.

200 In the case of citizens and resident aliens, the ownership certificates, provided to be used in connection with the collection of interest, serve the purpose of claim. Ownership certificate, form 1001, is printed in black ink on yellow paper. The use of this form by a citizen or resident alien is notice to the withholding agent (the person or corporation paying the interest), that the taxpayer elects to claim the benefit of exemption from withholding. Nonresident alien individuals, foreign partnerships and corporations not engaged in trade or business within the United States and not having an office or place of business therein are required to use form 1000. They may claim exemption from collection of tax at the source by filing with the withholding agent on or before February 1, next succeeding the year for which returns of income are required to be made, a claim on form 1001B.

ADVANTAGE OF COLLECTION AT THE SOURCE TO THE TAXPAYER AND HOW EFFECTED.

201 Where corporations have issued obligations containing a tax covenant and there is no claim of exemption from collection of tax at the source, the debtor corporation (obligor in the bonds, etc.) restores the amount deducted and withheld and therefore pays interest in full. This tax collected by the withholding agent is turned over to the Government and is placed to the credit of the taxpayer. This tax collected at the source is not required to be included in his return of income. Only the contract interest paid is included in the return of income. Against the tax computed on the

return of income, the taxpayer takes a credit for the amount of tax collected, at the source of the income, by the withholding agent.

Illustration:

\$1,000, 5% tax covenant bond—Interest \$50; tax @ 4% =
Deducted and withheld at source..... 1 \$2.00

Remainder\$49

Collection restored 1

Received by bond owner.....\$50 = Tax \$2.00

Credit for collection at source..... 1.00

Amount of tax paid by taxpayer..... \$1.00

METHOD OF SECURING ADVANTAGE OF COLLECTION OF TAX AT SOURCE.

202 Citizens and resident aliens have an election as to whether they will use ownership certificates form 1001 (yellow), or form 1000 (white); non-resident aliens must use form 1000, but may submit in connection with form 1000, claim for personal exemption on form 1001B. The use of form 1000 is notice to the withholding agent that the taxpayer elects not to claim exemption from withholding. The law then casts on the withholding agent the duty of making collection of tax from payments he makes in connection with which the form 1000 is used. Foreign corporations subject to collection of tax at the source must also use certificate form 1000.

203 The foregoing is in accordance with regulations heretofore existing. The Act of 1921 as to withholding is substantially the same as the Act of 1918 under which previous regulations were promulgated.

204 Income upon which any tax is required to be withheld at the source under this section shall be included in the return of the recipient of such income, but any tax so withheld shall be credited against the amount of income tax as computed in such return.

205 If any tax required under this section to be deducted and withheld is paid by the recipient of the income it shall not be re-collected from the withholding agent; nor in cases

in which the tax is so paid shall any penalty be imposed upon or collected from the recipient of the income or the withholding agent for failure to return or pay the same, unless such failure was fraudulent and for the purpose of evading payment.

OWNERSHIP CERTIFICATES REQUIRED IN CONNECTION WITH COLLECTION OF INCOME.

206 There are three general classes of ownership certificates required in connection with collection of interest from obligations of domestic corporations:

207 (a) Form 1000 (white) to be used by citizens and resident aliens and partnerships with coupons from tax covenant bonds, and by nonresident alien individuals and partnerships and foreign corporations not engaged in trade or business within the United States and not having an office or place of business therein, with coupons from all domestic corporation bonds. The certificate is so constructed as to provide for entry thereon by these several classes of taxpayers of the classes of income to which the certificate relates.

208 (b) Form 1001 (yellow) to be used by citizens and resident aliens and domestic partnerships:

(1) For the purpose of claiming exemption from collection at the source of 2% normal tax on tax covenant bonds.

(2) With coupons from bonds not having a tax covenant. And by domestic corporations, with coupons from all bonds, whether or not they contain a tax covenant. Domestic corporations are not subject to collection of tax at the source and for this reason are required to use form 1001.

209 (c) Form 1001A (green) to be used in connection with collection of interest on foreign items. This means foreign payments of interest or dividends by means of coupons, checks, or bills of exchange.

EXCESS-PROFITS AND WAR-PROFITS TAX.

210 The excess-profits tax is imposed for 1921 on net taxable income of corporations, upon an amount thereof in excess of the excess-profits tax credit.

211 The excess profits tax credit is 8% of the invested capital plus a specific exemption of \$3,000. If the entire credit is not used in the first bracket of the tax, the remainder is carried to the second bracket of the tax.

212 The net income for excess-profits tax, is the net taxable income as computed on a return of income.

213 The amount of the tax thus computed is the excess-profits tax to be paid and also to be used as a credit for income tax, unless the excess-profits tax computed under section 302 of the Act is less than the tax computed as above. The tax under section 302 is:

20% of amount of net income in excess of \$3,000 and not exceeding \$20,000.

Plus 40% of the amount of net income in excess of \$20,000.

214 Corporations exempt from income tax and corporations having a net income of less than \$3,000 for the taxable year, are exempt from excess-profits tax.

215 The excess-profits tax provisions of the Revenue Act of 1918 with the elimination only of obsolete provisions of that Act, are carried forward into the Revenue Act of 1921 and the regulations for computation of the tax under the former Act will apply for the computation of the tax under the Act of 1921.

216 The excess-profits tax provisions of the Revenue Act of 1921 are to become obsolete as of January 1, 1922.

217 The excess-profits tax is computed on the net income as disclosed by income tax return, whether such income and return be for the full twelve months or for a year's period. The capital used for the purpose of this computation is the average invested capital for the twelve months of the taxable year, but in case the taxable period is less than twelve months, then the invested capital for the lesser period is the same fraction of the average invested capital for the year that the period covered is of twelve months, and in such case also the \$3,000 specific exemption shall be reduced to an

amount which is the same proportion of \$3,000 as the number of months in the period covered is of twelve months.

218 Because of the provisions in the Excess-Profits Tax Law for averaging of capital and specific credit, and also because the corporation income tax is at a flat rate of 10% for the year 1921, the new provision in section 226 (c) for computation of income tax for a period less than twelve months does not have the drastic effect that it does where individual tax is to be computed. (§142.) Example:

Taxable period of three months; invested capital, \$50,000.
Net income, \$20,000.

Invested capital for computation of tax is same proportion of actual invested capital that period covered is of 12 months = $\frac{1}{4}$	\$12,500
Credit @ 8% of average capital.....	\$1,000
Same proportion of \$3,000 as of actual capital = ...	750
Excess-profits tax credit.....	\$1,750

	Income	Credit	Balance	Rate	Tax
20% of Capital..... =	\$2,500	\$1,750	\$750	20%	\$150
Balance.....	17,500	.....	17,500	40%	7,000
Net Income.....	\$20,000	\$1,750	\$18,250		\$7,150

Sec. 302 applies:

Net Income.. \$20,000 - \$3,000 = \$17,000 @ 20% = \$3,400 \$3,400.00
+ Specific Credit..... 2,000

Less Credit.. \$5,400 Credit for Income Tax. = \$5,400

Subject to In-
come Tax... \$14,600 $\times$ 12 mos. = \$58,400 $\div$ 3 mos. =
\$19,466.67 @ 10% = \$1,946.67
 $\frac{1}{4}$ for Income Tax..... = \$486.67

Total Tax..... = \$3,886.67

Income Tax without averaging would be..... \$1,460
and Total Tax would be..... 4,860

219 The rules for computation of invested capital and computation of excess-profits tax not being changed, but in all respects remaining as under the Revenue Act of 1918, are not reproduced here.

PAYMENT OF THE TAX.

220 The tax upon income, whether income tax only or income and excess-profits tax, being determined, is to be paid. The tax may be paid in its entirety at the time of filing the return of income, or it may be paid, $\frac{1}{4}$ at the time of filing the return of income (not later than March 15th) and the other three installments of $\frac{1}{4}$ each on June 15th, September 15th and December 15th next following. Where the return is made on the basis of a fiscal year, the first installment is to be paid at the time of filing the return; the remaining installments of $\frac{1}{4}$ of the tax each, are to be paid on or before the 15th day of the third, sixth and ninth months after the return is due.

221 The tax is to be paid with cash, money order or check (certified or uncertified) or with notes or certificates of indebtedness of the Treasury of the United States. Such notes and certificates are receivable in payment of tax, by the Collector of Internal Revenue at par with adjustment for accrued interest to the time of payment of tax.

222 The foregoing are general rules. Modifications of the general rules and prescription for penalties and interest are to be found in sections 250, 253, 1302 and 1311 of the Revenue Act of 1921.

RECEIPTS FOR TAX PAID.

223 Collectors of Internal Revenue are required to give receipts for tax paid, when such receipts are requested. The receipt is to be written or printed and shall state the amount paid and the particular account for which such payment is made.

REFUNDS.

224 Section 252. Where it appears upon an examination of any return that an amount of tax has been paid in excess of that properly due, the excess may be credited against any further tax then due, or shall be refunded to the taxpayer. Refunds are made upon claim therefor. Refund claims must be made within five years from the date the return (on which the overpayment was made) was due. Sections 1315, 1316, 1317 and 1324 provide further details as to refunds.

INTEREST ON REFUNDS.

225 Section 1324 provides for the payment of interest on overpayments of tax allowed on refund at the rate of 1% per month from different dates, according to the facts specified in the section.

LIMITATION OF EXAMINATIONS AND FINAL DETERMINATION AND ASSESSMENT OF TAX.

226 Sections 1308, 1309, 1312 and 1313 provide for a final determination of tax liability, and when complied with, a case is not to be reopened.

LIMITATION UPON SUITS AND PROSECUTIONS.

227 Sections 1318 to 1325 inclusive specify the details of such limitations.

LIMITATION OF LIBERTY BOND EXEMPTIONS.**LIBERTY BOND EXEMPTIONS UNDER REVENUE ACT OF 1921**

228 Beginning January 1, 1921, and continuing for two years from July 2, 1921, the interest on an aggregate average principal, annually, not exceeding \$130,000, made up of any 4% or 4¼%, or combination thereof, of Liberty Bonds, not including First Liberty, Second Converted 4¼% Bonds, is exempt from all normal and surtax to individuals, and income and excess profits tax to corporations.

229 Beginning January 1, 1921, and continuing for two years from and after July 2, 1921, the interest on an aggregate average principal, annually, not exceeding \$30,000 of First Liberty Second Converted 4¼% Bonds, is exempt from all normal and surtax to individuals and income and excess profits tax to corporations.

230 These maximum exemptions are the same as would have been possible under Liberty Bond Acts, prior to the Revenue Act of 1921, provided all conditions of collateral exemption should be in force in a particular case. The effect of the Revenue Act of 1921 is to eliminate all requirements in connection with collateral exemptions and to provide outright a total amount of possible exemption of Liberty Bond interest for two years after July 2, 1921 (or until July 2, 1923) of interest on an aggregate average principal of \$160,000.

231 For 1921 this applies both to individuals and corporations. After 1921 all Liberty Bond interest will be exempt to corporations, because the only corporation tax which would apply to any corporate income from Liberty Bonds, is the excess-profits tax, and such tax is not levied by the Act of 1921 after December 31, 1921.

232 After July 2, 1923, and until July 2, 1926, the Revenue Act of 1921 provides an exemption of Liberty Bond interest on an aggregate average principal of such bonds not exceeding annually \$55,000 to individuals, partnerships and estates or trusts, such principal to be made up of 4%, 4¼% or any combination thereof of such bonds. This may include First Liberty, Second Converted 4¼% Bonds.

233 After July 2, 1926, the total exemption is \$5,000, made up of any 4% or 4¼% Liberty Bonds or combination thereof.

LIBERTY BOND EXEMPTIONS PRIOR TO ACT OF 1921

ON WHAT?	UNDER FOURTH LOAN ACT				UNDER FIFTH LOAN ACT	
	UNDER SECOND ACT	Collateral:	Original:	First, Second converted 4¼% Bonds or 1st Loan converted into 4th Loan	Collateral:	Additional:
	Any 4% or 4¼% or combination of Liberty Bonds	Any 4% or 4¼% or combination, of 2nd and 3rd Loan Bonds, at rate of 1½ collateral for each 4th Loan Bond originally purchased and continuously held to and at date of making return of income — not exceeding \$30,000 of 4th Loan	4th Loan Bonds, whether purchased originally or in market		Any 4% or 4¼% or combination of Liberty Bonds at rate of 3 collateral Bonds for each Victory Bond originally purchased and continuously held to and at date of making return of income—not exceeding \$6,667 Victory Bonds	Any 4% or 4¼% or combination of Liberty Bonds
MAXIMUM EXEMPTION	\$5,000	\$45,000	\$30,000	\$30,000	\$20,000	\$30,000
LIFE OF EXEMPTION	For life of bonds	While original purchase 4th Loan held, not beyond 2 years after war	2 years after war	2 years after war	While original purchase Victory Bonds held, not exceeding 4 years — Government option 3 years—after war	5 years after war

For the purpose of computing this exemption, the average principal was ascertained by dividing the interest received by the rate of interest for the issue on which interest was paid.

The maximum exemption possible was the interest on an average principal for the year of \$160,000 until two years after the war, thereafter for three years on \$55,000, and thereafter for the life of 4 per cent and 4 1/4 per cent Liberty Bonds, \$6,000.

These exemptions are retained under the Revenue Act of 1921 and the conditions of purchase and continuous holding for purposes of collateral exemption are repealed.

All interest on Liberty 3 1/4 per cent and Victory 3 1/2 per cent bonds is wholly exempt from tax. All interest on Victory 4 1/4 per cent is wholly subject to the surtax to individual holders and to the excess profits tax for 1921 to corporate holders. After 1921 all Liberty and Victory Bond interest is exempt from tax to corporations.

LIBERTY BOND EXEMPTIONS UNDER REVENUE ACT OF 1921

Title of Bond	Dated	Interest Payable	Form	Denomination	Callable	Due	EXEMPTIONS
1st 4%, 1932-1947 First Loan converted into Second Loan	Nov. 15, 1917	June and Dec. 15.	Coupon and Registered	Coupon: \$50, \$100, \$500, \$1,000, Reg.: \$100, \$500, \$1,000, \$5,000, \$10,000, \$50,000, \$100,000	June 15, 1932	June 15, 1947	(a) Beginning January 1, 1921, and for two years from July 2, 1921, interest on—an aggregate average principal, annually, \$130,000 (in addition to last paragraph).—(e) (b) And for three years more—in lieu of above—interest on, an aggregate average principal, annually, \$55,000. (c) Above means:—(including paragraph (e)) Until July 2, 1923, possible, \$160,000; for three years more, possible, \$55,000; thereafter, \$5,000. (d) Act of 1921 abolishes prescription for continuous holding of original purchases of 4th and 5th Loan Bonds.
1st, 4 1/4% 1932-1947 1st or 2nd Loan into 3rd	May 9, 1918	June and Dec. 15	Ditto	Ditto	June 15, 1932	June 15, 1947	
2nd, 4% 1927-42 Second Loan	Nov. 15, 1917	May and Nov. 15	Ditto	Ditto	Nov. 15, 1927	Nov. 15, 1942	
2nd, 4 1/4% 1927-1942 2nd Loan into 3rd Loan	May 9, 1918	May and Nov. 15	Ditto	Ditto	Nov. 15, 1927	Nov. 15, 1942	
3rd, 4 1/4%, 1928 3rd Loan	May 9, 1918	March and Sept. 15	Ditto	Ditto	Not	Sept. 15, 1928	
4th, 4 1/4%, 1933- 1938, 4th Loan	Oct. 24, 1918	April and Oct. 15	Ditto	Ditto	Oct. 15, 1933	Oct. 15, 1938	
1st, 2nd converted 4 1/4% 1932-1947 1st Loan into 4th Loan	Oct. 24, 1918	June and Dec. 15	Ditto	Ditto	June 15, 1932	June 15, 1947	(e) Beginning January 1, 1921 and continuing for two years from July 2, 1921; interest on—an aggregate average principal, annually, \$30,000 (in addition to first paragraph).—(e)

Average annual principal will be determined by dividing the amount of interest received, by the rate of the issue upon which the interest was paid, and adding together the several averages and comparing their sum with the maximum exemption according to the classes involved. Until July 2, 1923, there are two classes: First, Second Converted (e) in one class, and all the others noted above in one class.

CONSOLIDATED RETURNS OF INCOME FOR 1917.

234 Section 1331 is declaratory of the provisions of the Revenue Act of 1917 with respect to consolidated returns of income under that Act by affiliated corporations.

ALTERNATIVE TAX ON PERSONAL SERVICE CORPORATION.

235 Section 1332 provides that in the event the provision for taxation of income of personal service corporations under the Revenue Act of 1918 or Revenue Act of 1921 shall be by final adjudication declared invalid, such income shall be taxed as the income of ordinary corporations and provides the details of accounting for such tax.

PORTO RICO AND PHILIPPINE ISLANDS

236 Section 261 provides that the taxation of income in these Possessions of the United States is not affected by the Revenue Act of 1921, but is in all respects to be levied, assessed and collected and paid in those Islands at the pleasure of their respective legislatures.

CITIZENS OF A POSSESSION OF THE UNITED STATES

237 Section 260 defines who are, and their status with respect to taxation of income from sources within the United States.

INCOME FROM SOURCES WITHIN A POSSESSION OF THE UNITED STATES.

238 Section 262 defines what is such income and its status with respect to United States taxation.

CHILD LABOR AND INCOME TAX.

239 Sections 1200 to 1207 provide for the levy, assessment and collection in addition to all other taxes, of an excise tax of 10% of the total net income from a business employing such labor and the detail of such levy, assessment and collection, together with penalty for violation of the Act.

240 Similar Acts have twice been declared unconstitutional by a United States District Court and once by a Supreme Court of the United States. Resort is had to calling the tax an excise tax. It would appear to be essentially an income tax.

TABLE I

Comparison of tax on individual income (married persons living together) at the lowest rates under the Act of 1918 with tax on the same amounts for 1921 and thereafter under the Act of 1921.

The following table, which is for a married man or woman claiming personal exemption but not exemption for dependents, shows the normal rates, surtax, and amount of tax on incomes up to \$1,000,000 for 1921 and 1922 under the new law and for 1920 under the old law:

*Net Income	Per Cent of Normal Tax	Per Cent of Surtax 1921	Per Cent of Surtax 1922 and Thereafter	Per Cent of Surtax Old Law	Total Tax 1921	Total Tax 1922 and Thereafter	Total Tax Old Law
\$3,000	4	..	..	..	\$20	\$20	\$40
4,000	4	..	..	..	60	60	80
5,000	4	..	..	..	100	100	120
6,000	4	1	..	1	170	160	170
8,000	8	2	1	2	370	340	370
10,000	8	3	1	3	590	520	590
12,000	8	4	2	4	830	720	830
14,000	8	5	3	5	1,090	940	1,090
16,000	8	6	4	6	1,370	1,180	1,370
18,000	8	7	5	7	1,670	1,440	1,670
20,000	8	8	6	8	1,990	1,720	1,990
22,000	8	9	8	9	2,330	2,040	2,330
24,000	8	10	9	10	2,690	2,380	2,690
26,000	8	11	10	11	3,070	2,740	3,070
28,000	8	12	11	12	3,470	3,120	3,470
30,000	8	13	12	13	3,890	3,520	3,890
32,000	8	14	13	14	4,330	3,940	4,330
34,000	8	15	15	15	4,790	4,400	4,790
36,000	8	16	15	16	5,270	4,860	5,270
38,000	8	17	16	17	5,770	5,340	5,770
40,000	8	18	17	18	6,290	5,840	6,290
42,000	8	19	18	19	6,830	6,360	6,830
44,000	8	20	19	20	7,390	6,900	7,390
46,000	8	21	20	21	7,970	7,460	7,970
48,000	8	22	21	22	8,570	8,040	8,570
50,000	8	23	22	23	9,190	8,640	9,190
52,000	8	24	23	24	9,830	9,260	9,830
54,000	8	25	24	25	10,490	9,900	10,490
56,000	8	26	25	26	11,170	10,560	11,170
58,000	8	27	26	27	11,870	11,240	11,870
60,000	8	28	27	28	12,590	11,940	12,590
62,000	8	29	28	29	13,330	12,660	13,330
64,000	8	30	29	30	14,090	13,400	14,090
66,000	8	31	30	31	14,870	14,160	14,870
68,000	8	32	31	32	15,670	14,940	15,670
70,000	8	33	32	33	16,490	15,740	16,490
72,000	8	34	33	34	17,330	16,560	17,330
74,000	8	35	34	35	18,190	17,400	18,190
76,000	8	36	35	36	19,070	18,260	19,070
78,000	8	37	36	37	19,970	19,140	19,970
80,000	8	38	37	38	20,890	20,040	20,890
82,000	8	39	38	39	21,830	20,960	21,830
84,000	8	40	39	40	22,790	21,900	22,790
86,000	8	41	40	41	23,770	22,860	23,770
88,000	8	42	41	42	24,770	23,840	24,770
90,000	8	43	42	43	25,790	24,840	25,790
92,000	8	44	43	44	26,830	25,860	26,830
94,000	8	45	44	45	27,890	26,900	27,890
96,000	8	46	45	46	28,970	27,960	28,970
98,000	8	47	46	47	30,070	29,040	30,070
100,000	8	48	47	48	31,190	30,140	31,190
150,000	8	52	48	52	61,190	58,140	61,190
200,000	8	56	49	56	93,190	86,640	93,190
300,000	8	60	50	60	161,190	144,640	161,190
500,000	8	63	50	63	303,190	260,340	303,190
1,000,000	8	64	50	64	663,190	550,640	663,190

*In computing the tax, personal exemption of \$3,000 is allowed on incomes not in excess of \$5,000, and \$3,000 is allowed on incomes of \$5,000 or over, both under the new law. Personal exemption of \$3,000 is allowed in computing the tax under the old law. No allowance is made for credit for dividends or interest on United States obligations, if any, included in net income. Neither is there any allowance of any exemption for dependents. For incomes over \$1,000,000 the rate of the normal tax is 8 per cent, the surtax for 1921 is 25 per cent and the surtax for 1922 and thereafter is 50 per cent.

TABLE II
Individual Tax for 1921—Normal 4% and 8%—Surtax Graduated Rates

Net Income	Total Tax without Exemption	Total Tax with Personal Exemption of \$1,000	Total Tax with Personal Exemption of \$2,500 and \$2,000	Total Normal Tax without Exemption	Total Normal Tax with Exemption of \$1,000	Total Normal Tax with Exemption of \$2,000	Total Surtax at Each Rate	Surtax Rates	Tax per Cent of Income with Exemption, \$2,500 and \$2,000	Tax per Cent of Income with Exemption, \$1,000	Tax per Cent of Income without Exemption	Net Income
\$1,000	\$ 40	\$ 0	\$ 40	\$ 40	\$ 0	\$ 0					.04	\$1,000
2,000	80	40	80	120	40	0			.00867	.02	.04	2,000
3,000	120	80	120	160	80	20			.01500	.03	.04	3,000
4,000	160	120	160	200	120	60			.02000	.032	.04	4,000
5,000	200	160	200	241.67	160	100			.02411	.03224	.04	5,000
*\$5,020.83	241.88	161.88	241.67		161.67	120.83	.21	1%			.04317	*\$5,020.83
6,000	330	250	320	320	240	160	10	1%	.02833	.04167	.05500	6,000
8,000	530	450	480	480	400	320	50	2	.04625	.05625	.06425	8,000
10,000	750	670	640	640	560	480	110	3	.05900	.06700	.07500	10,000
12,000	990	910	830	830	730	640	190	4	.06917	.07583	.08250	12,000
14,000	1,250	1,170	1,090	960	880	800	290	5	.07786	.08357	.08929	14,000
16,000	1,530	1,450	1,370	1,120	1,040	960	410	6	.08563	.09063	.09563	16,000
18,000	1,830	1,750	1,670	1,260	1,200	1,120	560	7	.09278	.09722	.10167	18,000
20,000	2,150	2,070	1,990	1,440	1,360	1,280	710	8	.09950	.10350	.10750	20,000
22,000	2,490	2,330	2,270	1,600	1,520	1,440	890	9	.10591	.10955	.11318	22,000
24,000	2,850	2,770	2,690	1,760	1,680	1,600	1,090	10	.11208	.11542	.11875	24,000
26,000	3,230	3,150	3,070	1,920	1,840	1,760	1,310	11	.11808	.12115	.12423	26,000
28,000	3,630	3,550	3,470	2,080	2,000	1,920	1,550	12	.12393	.12679	.12944	28,000
30,000	4,050	3,970	3,890	2,240	2,160	2,080	1,810	13	.12987	.13233	.13500	30,000
32,000	4,490	4,410	4,330	2,400	2,320	2,240	2,090	14	.13531	.13781	.14031	32,000
34,000	4,950	4,870	4,790	2,560	2,480	2,400	2,390	15	.14088	.14324	.14559	34,000
36,000	5,430	5,350	5,270	2,720	2,640	2,560	2,710	16	.14639	.14861	.15083	36,000
38,000	5,930	5,850	5,770	2,880	2,800	2,720	3,060	17	.15184	.15395	.15605	38,000
40,000	6,450	6,370	6,290	3,040	2,960	2,880	3,410	18	.15725	.15925	.16125	40,000
42,000	6,990	6,910	6,830	3,200	3,120	3,040	3,790	19	.16262	.16452	.16643	42,000
44,000	7,550	7,470	7,390	3,360	3,280	3,200	4,190	20	.16795	.16977	.17159	44,000

*Above \$5020.83, the exemption of \$2,500 is reduced to \$2,000.

46,000	8,130	8,050	7,970	3,520	3,440	3,360	4,610	420	21	17326	17500	17674	46,000
48,000	8,730	8,650	8,570	3,680	3,600	3,520	5,050	440	22	17654	18021	18187	48,000
50,000	9,330	9,250	9,170	3,840	3,760	3,680	5,510	460	23	18340	18707	18873	50,000
52,000	9,930	9,850	9,770	4,000	3,920	3,840	5,990	480	24	18904	19271	19437	52,000
54,000	10,660	10,580	10,490	4,160	4,080	4,000	6,490	500	25	19426	19793	19959	54,000
56,000	11,330	11,250	11,170	4,320	4,240	4,160	7,010	520	26	19946	20313	20479	56,000
58,000	12,030	11,950	11,870	4,480	4,400	4,320	7,550	540	27	20466	20833	21000	58,000
60,000	12,750	12,670	12,590	4,640	4,560	4,480	8,110	560	28	20983	21350	21517	60,000
62,000	13,480	13,400	13,320	4,800	4,720	4,640	8,690	580	29	21500	21867	22034	62,000
64,000	14,250	14,170	14,090	4,960	4,880	4,800	9,290	600	30	22016	22383	22550	64,000
66,000	15,030	14,950	14,870	5,120	5,040	4,960	9,910	620	31	22530	22897	23064	66,000
68,000	15,830	15,750	15,670	5,280	5,200	5,120	10,550	640	32	23044	23411	23578	68,000
70,000	16,650	16,570	16,490	5,440	5,360	5,280	11,210	660	33	23557	23924	24091	70,000
72,000	17,490	17,410	17,330	5,600	5,520	5,440	11,890	680	34	24069	24436	24603	72,000
74,000	18,350	18,270	18,190	5,760	5,680	5,600	12,590	700	35	24581	24948	25115	74,000
76,000	19,230	19,150	19,070	5,920	5,840	5,760	13,310	720	36	25093	25460	25627	76,000
78,000	20,130	20,050	19,970	6,080	6,000	5,920	14,050	740	37	25603	25970	26137	78,000
80,000	21,050	20,970	20,890	6,240	6,160	6,080	14,810	760	38	26112	26479	26646	80,000
82,000	21,990	21,910	21,830	6,400	6,320	6,240	15,590	780	39	26622	26989	27156	82,000
84,000	22,950	22,870	22,790	6,560	6,480	6,400	16,390	800	40	27131	27498	27665	84,000
86,000	23,930	23,850	23,770	6,720	6,640	6,560	17,210	820	41	27640	28007	28174	86,000
88,000	24,930	24,850	24,770	6,880	6,800	6,720	18,050	840	42	28149	28516	28683	88,000
90,000	25,950	25,870	25,790	7,040	6,960	6,880	18,910	860	43	28655	29022	29189	90,000
92,000	26,990	26,910	26,830	7,200	7,120	7,040	19,790	880	44	29163	29530	29697	92,000
94,000	28,050	27,970	27,890	7,360	7,280	7,200	20,690	900	45	29670	30037	30204	94,000
96,000	29,130	29,050	28,970	7,520	7,440	7,360	21,610	920	46	30177	30544	30711	96,000
98,000	30,230	30,150	30,070	7,680	7,600	7,520	22,550	940	47	30684	31051	31218	98,000
100,000	31,350	31,270	31,190	7,840	7,760	7,680	23,510	960	48	31190	31557	31724	100,000
150,000	61,350	61,270	61,190	11,840	11,760	11,680	28,000	52	52	40793	40960	41127	150,000
200,000	83,350	83,270	83,190	15,840	15,760	15,680	32,000	56	56	46595	46762	46929	200,000
300,000	161,350	161,270	161,190	23,840	23,760	23,680	37,510	60	60	53783	53950	54117	300,000
500,000	303,350	303,270	303,190	39,840	39,760	39,680	46,510	63	63	60654	60821	60988	500,000
1,000,000	663,350	663,270	663,190	79,840	79,760	79,680	583,510	64	64	66319	66486	66653	1,000,000
var													Over
01,000,000													1,000,000

TABLE II—Continued
Individual Tax for 1921—Normal 4% and 8%—Surtax Graduated Rates

Net Income	Total Tax without Exemption	Total Tax with Personal Exemption of \$1,000	Total Tax with Personal Exemption of \$2,000	Total Normal Tax without Exemption	Total Normal Tax with Exemption of \$1,000	Total Normal Tax with Exemption of \$2,000	Total Surtax	Surtax at Each Rate	Surtax Rates — Not Over	Tax per cent of Income with Exemption, \$2,500 and \$2,000	Tax per cent of Income with Exemption \$1,000	Tax per cent of Income without Exemption	Net Income
\$ 7,500	\$ 498	\$ 490	\$ 330	\$ 440	\$ 360	\$ 280	\$ 40		2%	.04267	.06332	.06400	\$ 7,500
12,500	1,055	975	895	840	760	680	215		5	.07160	.07800	.08440	12,500
15,000	1,300	1,310	1,230	1,040	960	880	350		5	.06300	.06733	.09267	15,000
25,000	3,040	2,960	2,880	1,840	1,760	1,680	1,200		11	.11520	.11840	.12160	25,000
35,000	5,190	5,110	5,030	2,640	2,560	2,480	2,560		16	.14371	1.4600	.14829	35,000
45,000	7,840	7,760	7,680	3,440	3,360	3,280	4,400		21	.17067	.17244	.17432	45,000
55,000	10,900	10,910	10,830	4,240	4,160	4,080	6,750		26	.19691	.19836	.19982	55,000
65,000	14,640	14,560	14,480	5,040	4,960	4,880	9,600		31	.22277	.22400	.22523	65,000
75,000	18,700	18,710	18,630	5,840	5,760	5,680	12,960		36	.24840	.24947	.25053	75,000
85,000	23,440	23,360	23,280	6,640	6,560	6,480	16,800		41	.27388	.27482	.27576	85,000
95,000	28,500	28,510	28,430	7,440	7,360	7,280	21,150		46	.29926	.30011	.30095	95,000
Over													Over
1,000,000									65	.71664	.71665	.71667	1,000,000
5,000,000	3,583,359	3,583,270	3,583,190	399,840	399,760	399,680	3,183,510		65				5,000,000

INSTRUCTIONS

FOR USE OF TABLES 2 AND 3 FOR TAX ON INDIVIDUAL INCOME

EXAMPLE:

A married man without dependents has a net income,
 all subject to Normal and Surtax \$51,000
 From the column of total tax, with exemption of \$2,000,
 we find the tax for \$50,000 to be..... \$9,190

The next higher Surtax rate is..... 24%
 Add Normal Tax rate..... 8%

 32%

The additional \$1,000 at 32%..... 320

Total tax \$9,510

If the tax be calculated in detail, we have:

Total net income..... \$51,000
 Less exemption 2,000

Amount of income subject to Normal Tax..... \$49,000
 \$ 4,000 at 4%..... \$160
 \$45,000 at 8%..... 3600

Normal Tax \$3,760
 From Surtax table, we find tax on \$50,000 to be.. \$5,510
 \$1,000 at 24%..... 240 5,750

Total tax..... \$9,510

The Normal Tax and Surtax tables may be taken separately,
 or in any combination desired.

The method is the same for the 1922 table.

TABLE III
Individual, Normal and Surtax, 1922—Normal 4% and 8%—Surtax Graduated Rates

Net Income	Total Tax without Exemption	Total Tax with Exemption of \$1,000	Total Tax with Exemption of \$2,500	Total Normal Tax without Exemption	Total Normal Tax with Exemption of \$1,000	Total Normal Tax with Exemption of \$2,500 and	Total Surtax at Each Rate	Surtax Rates	Tax per Cent of Income with Exemption of \$2,500 and	Tax per Cent of Income with Exemption of \$1,000	Tax per Cent of Income without Exemption	Net Income
\$1,000	\$40	\$40	\$40	\$40	\$40	\$2,000			\$2,000	\$1,000	.0400	\$1,000
2,000	80	80	80	80	80	\$20			.0200	.0200	.0400	2,000
3,000	120	80	80	120	80	60			.0267	.0267	.0400	3,000
4,000	160	120	120	160	120	100			.0150	.0300	.0400	4,000
5,000	240	160	160	240	160	100			.0200	.0200	.0400	5,000
5,020.83	241.67	161.67	161.67	241.67	161.67	120.83			.02406	.03219	.04813	5,020.83
6,000	320	240	240	320	240	160			.02667	.04000	.05333	6,000
10,000	680	600	520	640	560	480	\$40	1%	.05200	.06000	.06800	10,000
12,000	880	800	720	800	720	640	80	2	.06000	.06667	.07333	12,000
14,000	1,100	1,020	940	960	880	800	140	3	.06714	.07286	.07857	14,000
16,000	1,340	1,260	1,180	1,120	1,040	960	220	4	.07375	.07875	.08375	16,000
18,000	1,600	1,520	1,440	1,280	1,200	1,120	320	5	.08000	.08444	.08889	18,000
20,000	1,880	1,800	1,720	1,440	1,360	1,280	440	6	.08600	.09000	.09400	20,000
22,000	2,200	2,120	2,040	1,600	1,520	1,440	600	8	.09273	.09638	.10000	22,000
24,000	2,540	2,460	2,380	1,760	1,680	1,600	780	9	.09917	.10250	.10583	24,000
26,000	2,900	2,820	2,740	1,920	1,840	1,760	980	10	.10538	.10846	.11154	26,000
28,000	3,280	3,200	3,120	2,080	2,000	1,920	1,200	11	.11143	.11429	.11714	28,000
30,000	3,680	3,600	3,520	2,240	2,160	2,080	1,440	12	.11733	.12000	.12267	30,000
32,000	4,100	4,020	3,940	2,400	2,320	2,240	1,700	13	.12313	.12563	.12813	32,000
34,000	4,540	4,460	4,380	2,560	2,480	2,400	2,000	14	.12900	.13150	.13400	34,000
36,000	5,000	4,920	4,840	2,720	2,640	2,560	2,300	15	.13483	.13722	.13944	36,000
38,000	5,500	5,420	5,340	2,880	2,800	2,720	2,620	16	.14063	.14263	.14474	38,000
40,000	6,000	5,920	5,840	3,040	2,960	2,880	2,960	17	.14646	.14800	.15000	40,000
42,000	6,520	6,440	6,360	3,200	3,120	3,040	3,360	18	.15229	.15433	.15624	42,000
44,000	7,060	6,980	6,900	3,360	3,280	3,200	3,700	19	.15813	.15983	.16146	44,000
46,000	7,620	7,540	7,460	3,520	3,440	3,360	4,100	20	.16397	.16567	.16730	46,000
48,000	8,200	8,120	8,040	3,680	3,600	3,520	4,520	21	.16981	.17151	.17314	48,000
50,000	8,800	8,720	8,640	3,840	3,760	3,680	4,960	22	.17565	.17735	.17898	50,000
52,000	9,420	9,340	9,260	4,000	3,920	3,840	5,420	23	.18149	.18319	.18482	52,000
54,000	10,060	9,980	9,900	4,160	4,080	4,000	5,900	24	.18733	.18903	.19066	54,000

56,000	10,720	10,840	10,560	4,320	4,240	4,160	6,400	500	25	18857	19000	19143	56,000
58,000	11,400	11,320	11,240	4,480	4,400	4,320	6,920	520	26	19379	19517	19655	58,000
60,000	12,100	12,020	11,940	4,640	4,560	4,480	7,460	540	27	20000	20033	20171	60,000
62,000	12,820	12,740	12,660	4,800	4,720	4,640	8,020	560	28	20419	20548	20677	62,000
64,000	13,560	13,480	13,400	4,960	4,880	4,800	8,600	580	29	20838	21063	21188	64,000
66,000	14,320	14,240	14,160	5,120	5,040	4,960	9,200	600	30	21455	21576	21697	66,000
68,000	15,100	15,020	14,940	5,280	5,200	5,120	9,820	620	31	22171	22288	22406	68,000
70,000	15,900	15,820	15,740	5,440	5,360	5,280	10,460	640	32	22886	23000	23114	70,000
72,000	16,720	16,640	16,560	5,600	5,520	5,440	11,120	660	33	23600	23711	23822	72,000
74,000	17,560	17,480	17,400	5,760	5,680	5,600	11,800	680	34	24314	24426	24537	74,000
76,000	18,420	18,340	18,260	5,920	5,840	5,760	12,500	700	35	25028	25132	25237	76,000
78,000	19,300	19,220	19,140	6,080	6,000	5,920	13,220	720	36	25743	25844	25944	78,000
80,000	20,200	20,120	20,040	6,240	6,160	6,080	13,960	740	37	26458	26550	26646	80,000
82,000	21,120	21,040	20,960	6,400	6,320	6,240	14,720	760	38	27173	27261	27356	82,000
84,000	22,060	21,980	21,900	6,560	6,480	6,400	15,500	780	39	27888	27971	28061	84,000
86,000	23,020	22,940	22,860	6,720	6,640	6,560	16,300	800	40	28603	28674	28761	86,000
88,000	24,000	23,920	23,840	6,880	6,800	6,720	17,120	820	41	29318	29371	29461	88,000
90,000	25,000	24,920	24,840	7,040	6,960	6,880	17,960	840	42	30033	30071	30161	90,000
92,000	26,020	25,940	25,860	7,200	7,120	7,040	18,820	860	43	30748	30771	30861	92,000
94,000	27,060	26,980	26,900	7,360	7,280	7,200	19,700	880	44	31463	31471	31561	94,000
96,000	28,120	28,040	27,960	7,520	7,440	7,360	20,600	900	45	32178	32171	32261	96,000
98,000	29,200	29,120	29,040	7,680	7,600	7,520	21,520	920	46	32893	32871	32961	98,000
100,000	30,300	30,220	30,140	7,840	7,760	7,680	22,460	940	47	33608	33571	33661	100,000
150,000	58,300	58,220	58,140	11,840	11,760	11,680	46,460	24,000	48	38760	38813	38867	150,000
200,000	86,800	86,720	86,640	15,840	15,760	15,680	70,960	24,500	49	43320	43360	43400	200,000
Over									50				Over
200,000													200,000
7,500	455	375	295	440	360	280	15			03933	05000	06067	7,500
12,500	835	855	775	840	760	680	95			06200	06840	07480	12,500
15,000	1,220	1,140	1,060	1,040	960	880	180			07067	07600	08133	15,000
25,000	2,720	2,640	2,560	2,540	2,460	2,380	880			10140	10580	10980	25,000
35,000	4,790	4,710	4,630	2,640	2,560	2,480	2,150			13229	13457	13686	35,000
45,000	7,340	7,260	7,180	3,420	3,360	3,280	3,900			15956	16133	16311	45,000
55,000	10,390	10,310	10,230	4,240	4,160	4,080	6,150			18600	18745	18891	55,000
65,000	13,940	13,860	13,780	5,040	4,960	4,880	8,900			21200	21323	21446	65,000
75,000	17,990	17,910	17,830	5,840	5,760	5,680	12,150			23773	23880	23987	75,000
85,000	22,540	22,460	22,380	6,640	6,560	6,480	15,900			26329	26424	26518	85,000
95,000	27,590	27,510	27,430	7,440	7,360	7,280	20,150			28874	28957	29042	95,000
125,000	44,320	44,220	44,140	9,840	9,760	9,680	34,460			35312	35376	35440	125,000
175,000	72,550	72,470	72,390	13,840	13,760	13,680	58,710			41366	41411	41457	175,000

TABLE IV
Comparison of Corporate Tax Liability for 1921 and 1922
Income and Excess Profits Tax for 1921—Income Tax at 12½ % for 1922
(Amounts to right of black diagonal line show a reduction of tax in 1922)

Invested Capital	Net Income 8%		Net Income 9%		Net Income 10%		Net Income 11%		Net Income 12%		Net Income 15%		Net Income 25%	
	1921	1922	1921	1922	1921	1922	1921	1922	1921	1922	1921	1922	1921	1922
\$25,000	None	None	\$25	\$31.25	\$50	\$62.50	\$75	\$93.75	\$100	\$125	\$175	\$318.75	\$375	\$531.25
50,000	\$200	\$250	250	312.50	300	375	350	437.50	400	500	640	687.50	2,400	1,312.50
100,000	600	750	700	875	800	1,000	900	1,125	1,100	1,250	2,220	1,625	5,720	2,875
150,000	1,000	1,250	1,150	1,437.50	1,300	1,625	1,720	1,812.50	2,140	2,250	3,400	2,737.50	9,150	4,687.50
200,000	1,800	2,250	2,050	2,562.50	2,600	2,875	3,550	3,437.50	4,200	3,750	6,260	4,687.50	15,610	7,812.50
500,000	4,000	5,000	4,800	5,625	6,200	6,250	7,000	6,875	9,060	7,500	13,200	9,375	31,760	15,625
750,000	6,000	7,500	7,500	8,437.50	9,060	9,375	11,760	10,312.50	13,860	11,250	20,160	14,062.50	47,910	23,437.50
1,000,000	8,000	10,000	10,200	11,250	13,060	12,500	15,860	13,750	18,660	15,000	27,060	18,750	64,000	31,250
2,500,000	20,000	25,000	26,460	28,125	33,460	31,250	40,460	34,375	47,460	37,500	68,460	46,875	161,000	78,125
5,000,000	40,000	50,000	53,460	72,750	67,460	62,500	81,460	68,750	95,460	75,000	137,460	93,750	322,400	156,250
7,500,000	60,000	75,000	80,460	109,125	101,460	93,750	122,460	108,125	143,460	112,500	206,460	140,625	483,400	234,375
10,000,000	80,000	100,000	107,460	145,500	135,460	125,000	163,460	137,500	191,460	150,000	275,460	187,500	645,400	312,500
25,000,000	200,000	250,000	269,460	363,750	339,460	312,500	409,460	343,750	479,460	375,000	689,460	468,750	1,614,400	781,250
50,000,000	400,000	500,000	539,460	727,500	679,460	625,000	819,460	687,500	989,460	750,000	1,379,460	937,500	3,226,400	1,603,500
100,000,000	800,000	1,000,000	1,079,460	1,455,000	1,359,460	1,250,000	1,639,460	1,375,000	1,919,460	1,500,000	2,759,460	1,875,000	6,459,400	3,125,000

TABLE V

Table Showing Total Income Taxes of Corporations for 1922 on Various Net Incomes

(Above \$25,000 of Taxable Income, Percentage of Tax to Income is 12½%. Percentage varies from 7½% on \$5,000 to 11½% on \$25,000.)

Net Income	Total Tax	Net Income	Total Tax
\$2,000	None	475,000	59,375
5,000	\$375	500,000	62,500
10,000	1,000	550,000	68,750
15,000	1,625	600,000	75,000
20,000	2,250	650,000	81,250
25,000	2,875	700,000	87,500
25,285.71*	3,160.71	750,000	93,750
30,000	3,750	800,000	100,000
40,000	5,000	850,000	106,250
50,000	6,250	900,000	112,500
60,000	7,500	950,000	118,750
70,000	8,750	1,000,000	125,000
80,000	10,000	1,100,000	137,500
100,000	12,500	1,200,000	150,000
110,000	13,750	1,300,000	162,500
120,000	15,000	1,400,000	175,000
130,000	16,250	1,500,000	187,500
140,000	17,500	1,600,000	200,000
150,000	18,750	1,700,000	212,500
160,000	20,000	1,800,000	225,000
170,000	21,250	1,900,000	237,500
180,000	22,500	2,000,000	250,000
190,000	23,750	3,000,000	375,000
200,000	25,000	4,000,000	500,000
225,000	28,125	5,000,000	625,000
250,000	31,250	6,000,000	750,000
275,000	34,375	7,000,000	875,000
300,000	37,500	8,000,000	1,000,000
325,000	40,625	9,000,000	1,125,000
350,000	43,750	10,000,000	1,250,000
375,000	46,875	15,000,000	1,875,000
400,000	50,000	25,000,000	3,125,000
425,000	53,125	50,000,000	6,250,000
450,000	56,250		

*This amount of income is the dividing line for the use of the \$2,000 exemption.

Incomes in excess of \$25,285.71 have no specific exemption of \$2,000.

TABLE VI

Individual Tax Rates Under the Several Income Tax Laws

The first Income Tax Law was passed October 3, 1913. There have been four Income Tax Laws since enacted. These have been supplemented from time to time by Acts levying various kinds and forms of tax. The outstanding indication is that taxation of income is to be a permanent feature of Federal revenue. The several Income Tax Acts and their rates are as follows:

INDIVIDUAL

Act	Passed	Normal Tax
First	Oct. 3, 1913 x	1%
Second	Sept. 8, 1916 (x)	2%
Third	Oct. 3, 1917 *	2%
Fourth	Feb. 24, 1919 (a) (Act 1918)	4% (2% on first \$2,000 above exemption) 12% (6% on first \$4,000 above exemption)
Fifth	Nov. 23, 1921 (b)	8% (4% on first \$4,000 above exemption) 8% (4% on first \$4,000 above exemption)

x Effective March 1, 1913.

(x) Effective Jan. 1, 1916.

* Effective Jan. 1, 1917.

(a) Effective Jan. 1, 1918.

(b) Effective Jan. 1, 1921.

The rates of surtax and the years for which effective, are shown in tables below. The surtax rates of the Act of 1918 and for 1921 are identical—See Table II. The surtax rates for 1922 are shown in Table III.

SURTAXES FOR 1913, 1914, AND 1915

	Rates
\$20,000 to \$50,000.....	1%
50,000 to 75,000.....	2
75,000 to 100,000.....	3
100,000 to 250,000.....	4
250,000 to 500,000.....	5
Above \$500,000, 6 per cent.	

SURTAXES FOR 1916

\$20,000 to \$40,000.....	1%	200,000 to 250,000.....	7%
40,000 to 60,000.....	2	250,000 to 300,000.....	8
60,000 to 80,000.....	3	300,000 to 500,000.....	9
80,000 to 100,000.....	4	500,000 to 1,000,000.....	10
100,000 to 150,000.....	5	1,000,000 to 1,500,000.....	11
150,000 to 200,000.....	6	1,500,000 to 2,000,000.....	12
Above \$2,000,000, 13 per cent.			

SURTAX FOR 1917

\$5,000 to \$7,500.....	1%	100,000 to 150,000.....	27%
7,500 to 10,000.....	2	150,000 to 200,000.....	31
10,000 to 12,500.....	3	200,000 to 250,000.....	37
12,500 to 15,000.....	4	250,000 to 300,000.....	42
15,000 to 20,000.....	5	300,000 to 500,000.....	46
20,000 to 40,000.....	8	500,000 to 750,000.....	50
40,000 to 60,000.....	12	750,000 to 1,000,000.....	55
60,000 to 80,000.....	17	1,000,000 to 1,500,000.....	61
80,000 to 100,000.....	22	1,500,000 to 2,000,000.....	63
Over \$2,000,000, 63 per cent.			

TABLE VII

Corporation Tax Rates Under Several Income Tax Laws
INCOME TAX

Act	Passed	Exemption	Effective	Rate	Credit
First	Aug. 5, 1909	\$5,000	Jan. 1, 1909	1%	Amount of Excess Profits Tax or War Profits Tax; (Liberty Bond Interest and Dividends included in taxable income on return.) Under Acts 1917, 1918, 1921.
Second	Oct. 3, 1913	None	Mar. 1, 1913	1%	
Third	Sep. 8, 1916	None	Jan. 1, 1916	2%	
Fourth	Oct. 3, 1917	None	Jan. 1, 1917	6%	
Fifth	Feb. 24, 1919 (Act 1918)	\$2,000	Jan. 1, 1918	12%—1918 10% after 1918	
Sixth	Nov. 23, 1921	\$2,000 for Incomes not over \$25,000.	Jan. 1, 1921	10%—1921 12½%—1922 and thereafter	

EXCESS PROFITS TAX, 1917

Required computation of average Invested Capital and Income for
Pre-War Period (1911 to 1913, inclusive) and for 1917.

Excess Profits Credit against net taxable income:

$\frac{\text{not under}}{7\%}$ and $\frac{\text{not over}}{9\%}$ (of Average Invested Capital for 1917),
Plus \$3,000

COMPUTATION

Bracket	Income	Credit	Difference Taxable	Rate	Tax
1st, not over 15% of Capital =	\$.....	\$.....	\$.....	20%	\$.....
2nd, not over 5% of Capital =	\$.....	\$.....	\$.....	25%	\$.....
3rd, not over 5% of Capital =	\$.....	\$.....	\$.....	35%	\$.....
4th, not over 8% of Capital =	\$.....	\$.....	\$.....	45%	\$.....
5th, Balance of Income.... =	\$.....	\$.....	\$.....	60%	\$.....
Net Income..... =	\$.....	\$.....	\$.....		\$ Excess Profits Tax
Credit Excess Profits Tax =	\$.....				\$.....
Balance..... =	\$.....	@ 6% for.....			\$ Income Tax
Total Tax = \$.....					

Prior to 1917, dividends were subject to income tax. Occasionally cases were met with where it was necessary to modify the foregoing formula so as not to assess more than 1% on dividends for years prior to 1916, or 2% for 1916.

TABLE VII—Continued

COMPUTATION
1918

Bracket	Income	Credit	Difference Taxable	Rate	Tax
1st, not over 20% of Capital..... =	\$.....	\$.....	\$.....	30%	\$.....
2nd, Balance..... =				65%	
Net Income..... =	\$.....	\$.....	\$.....		\$ Excess Profits Tax
Less War Profits Credit	\$				
Balance Taxable..... =	\$.....			@ 80%	= \$ War Profits Tax
Compare Maximum Tax (Sec. 302) \$.....					

AFTER 1918

Bracket	Income	Credit	Difference Taxable	Rate	Excess Profits Tax
1st, not over 20% of Capital..... =	\$.....	\$.....	\$.....	20%	\$.....
2nd, Balance..... =				40%	
Net Income..... =	\$.....	\$.....	\$.....		\$ Tax

In both cases the applicable war tax is deducted from net income before computing income tax.

While taxation for 1917 was under both the Acts—1916 and 1917—the combination of the two gave, generally, the formula for income tax used above.

Excess Profits and War Profits Tax—Act 1918

For 1918—Required computation of average pre-war (1911-1913, inclusive) Invested Capital and Net Income, and for taxable year.

Excess Profits Credit: 8% of Invested Capital, + \$3,000.

War Profits Credit:

(a) Average Pre-war Net Income, plus or minus 10% of difference between average Pre-war Invested Capital and average Invested Capital for taxable year.

(b) But this credit could not be less than 10% of Invested Capital for taxable year plus \$3,000.

Excess Profits Tax Rates for 1918: { 30% of first bracket,
65% of second bracket.

War Profits tax rate: 80% of net income in excess of War Profits Credit.

The higher of the two taxes was assessed, unless the maximum tax under Section 302 was lower, in which event the maximum tax was assessed.

TABLE VIII

Showing Effect of High Taxes

Table A—Table showing decline of incomes over \$300,000—Individual.
(Reported shrinkage due to excessive surtaxes.)

	Number of returns		Net Income		Income from dividends interest, and investments	
	All Classes	Incomes over \$300,000	All Classes	Incomes over \$300,000	All Classes	Incomes over \$300,000
1916	437,036	1,296	\$6,298,577,620	\$992,972,986	\$3,217,348,030	\$706,945,738
1917	3,472,890	1,015	13,652,383,207	731,372,153	3,785,557,955	616,119,892
1918	4,425,114	627	15,924,639,355	401,107,868	3,872,234,935	344,111,461
1919	5,332,760	679	19,859,491,448	440,011,589	3,954,553,925	314,984,884

Table B—Table showing average rate of excess-profits and income taxes upon corporations of different size, illustrating difference in effect of the tax upon small or moderately capitalized and large corporations.

[Average size of corporations (measured by invested capital) earning different rates of profit; corporation returns made in 1919.]

Per cent of Net Income to Invested Capital	Number of corporations.	Invested Capital	Average Invested Capital	Per cent of Income and Profits Tax to Net Income
Less than 5 per cent.....	10,689	\$14,104,248,246	\$1,319,511	10.99
5 to 10 per cent.....	21,869	15,925,632,944	728,229	11.93
10 to 15 per cent.....	22,684	8,962,689,034	395,111	21.60
15 to 20 per cent.....	17,388	5,482,627,463	315,311	33.99
20 to 25 per cent.....	11,987	3,251,948,260	271,290	41.51
25 to 30 per cent.....	7,743	3,785,581,785	488,904	51.22
30 to 40 per cent.....	9,050	2,421,285,621	267,545	53.38
40 to 50 per cent.....	4,807	1,232,173,122	256,329	57.58
50 to 75 per cent.....	4,911	784,254,745	159,693	62.30
75 to 100 per cent.....	1,734	205,744,478	118,653	64.24
100 per cent. and over.....	2,194	133,853,470	61,009	67.40
Total.....	115,056	\$56,290,039,168	\$489,240	37.86

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5/27/22



For Investors

IN more than fifty of the leading investment centers of the United States and Canada, The National City Company maintains offices for the convenience of investors. Many of these are connected with the main office by a 10,000 mile system of private telegraph wires.

ONE of the helpful functions of this organization is to aid banks, individuals, and corporations in the investment of funds. The Company opens to them sources of information world-wide in scope. It offers advice based on experience and information;—tempered by the century-old financial background of The National City Bank of New York, with which it is closely allied.

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EACH month a special circular is issued, which lists a wide range of securities recommended for investment. This list or special offerings will be sent upon request.
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THE NATIONAL CITY COMPANY

Head Office: NATIONAL CITY BANK BUILDING, New York

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